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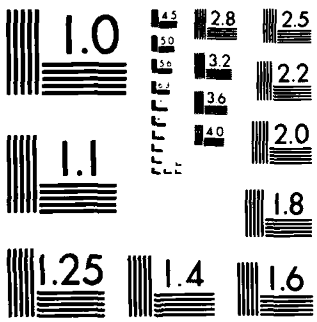

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STRATEGIC MANAGEMENT FOR ORGANIZATIONAL EFFECTIVENESS:

THE EFFECT OF HUMAN RESOURCE PLANNING ON RETENTION AND RELATED ISSUES

VOLUME TWO

Wharton ARC
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The Wharton School
University of Pennsylvania
Philadelphia, Pennsylvania 19104

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STRATEGIC MANAGEMENT FOR ORGANIZATIONAL EFFECTIVENESS:

THE EFFECT OF HUMAN RESOURCE PLANNING ON RETENTION AND RELATED ISSUES

VOLUME TWO

Lynn S. Oppenheim, Ph.D.
Susan D. Hyman, Ph.D.
Christine T. Kydd, Ph.D.

The Wharton Applied Research Center
3508 Market Street
Suite 100
University of Pennsylvania
Philadelphia, PA 19104

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The research reported here assessed the match between strategic direction, human resource policies and the perceptions of those policies held by middle managers in five successful organizations. Human resource practices related to retention -- job movement, organizational signals, and incentives -- were the focus of three separate studies. Results from the studies were combined with information from formal documents and interviews to form the basis for comparative case studies. Approximately 100 managers at each of six site

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20. contributed to the results reported here.

The key research findings were: 1) a model of job movement which took expectations into account was a good predictor of the way in which a manager and his boss divided tasks; 2) the rate of movement from one job to the next was more rapid in organizations where jobs were clearly and narrowly defined than when jobs evolved and expanded over time; 3) signals from the organization which were public, positive and relevant to a manager's goals increased the likelihood of his remaining with the organization; 4) managers were more likely to see themselves as resource constrained if goal setting and resource allocation were decided at different levels in the organization; 5) informal incentives were more salient to middle managers than most formal incentives.

The results indicated that the strategic considerations of these organizations were well served by their human resource practices although the configuration of policies and practices differed. The research also indicated that these effective organizations exhibited greater flexibility in interpreting policy and enforcing boundaries in areas in which they needed information to innovate and adapt.

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INTRODUCTION TO ORGANIZATIONAL CASE STUDIES

The previous sections focused on strategic and human resource trends found across participant organizations. While data aggregation is one step in the formulation of more universal patterns and recommendations, so is the identification of unique organizational relationships and configurations. Organization differentiation forms the basis of a contingency framework -- i.e., refined guidelines as to when and how generalizations should be applied.

The nature of this project's research problems also argues for in-depth within-site understandings. The effective integration of strategic and personnel demands and resources entails a host of interacting environmental, organizational, and human processes and outcomes (Lorange and Murphy, 1984; Tichy et al., 1981, 1982). Moreover, the growing evidence of the critical role that organizational context and culture play in shaping behaviors (e.g., Deal and Kennedy, 1982; Peters and Waterman, 1982; Pettigrew, 1976, 1979) indicates that contextual influences and organizational differences need to be addressed in field research.

The individual organizational cases therefore have two aims. The first is to integrate the findings across Studies One, Two, and Three within each setting. The second is to illuminate the efficacy or inefficacy of a variety of different structural and processual arrangements. Moreover, a case's "thick description" can provide a sense of insight and understanding not only of the facts and the events in the case, but also of the texture, the quality, and the power of the context as the employees in the situation experience it (Owens, 1982).

The six cases that follow address the same issues using identical data collection and analysis procedures. They focus on the unique aspects of each organization's external environment, strategic considerations, and human resource policies and procedures, respectively.

Frameworks for comparing these case studies were based on major distinctions set forth in the management and marketing literature about formal organizational elements. In terms of the <u>external environment</u>, comparisons were based on traditional product/market distinctions (e.g., Kotler, 1984) as well as the industry analysis framework set forth by Porter (1980). These comparisons are critical to the firm's essence because, as Porter explains, "Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment (and therefore competitive strategy) is the industry or industries in which it competes" (p. 3).

Porter (1980) describes industries in terms of four forces that drive industry competition: (a) potential entrants, (b) threat of substitute products, (c) suppliers, and (d) buyers. The nature of buyers is often described in terms of the classic product/market distinction of (1) industrial versus consumer and (2) service versus product. The threat of substitution is captured in terms of (3) the number of competitors. The six sites did not differ significantly in terms of either entry or supplier issues, so these categories were not further expanded.

An industry analysis also requires a dynamic as well as a static look at the industry. In terms of an organization's external environment, the issues of (4) stability has been a frequently cited concern (e.g., Emery and Trist, 1965; Terreberry, 1968; Miles, 1980). Some product factors incorporated within the notion of stability include (5) product life cycle, (6) innovation issues (including technological uncertainty), (7) government regulation, and (8) changes in industry boundaries (including mergers and divestitures).

EXHIBIT 4.1

EXTERNAL ENVIRONMENTAL FACTORS

	Navy	Sky Tech	Leisure Products	Middle Bank	Metro Bank	Metro Credit
Industrial/ Consumer						
Service/Product						
Number of Competitors						
Stability						
Product Life Cycle						
Technological Orientation						
Government Regulation						
Industry Rearrangements						

(8) changes in industry boundaries (including mergers and divestitures). Exhibit 4.1 presents a matrix for these eight environmental features, which will be completed in the discussion section of this project report.

After examining several of the important environmental factors for each organization in our study, we looked at the strategic considerations of each to determine what type of match there was between environment and strategy, and how various combinations of these two factors influenced resulting planning processes and human resource policies.

The framework we chose to examine these considerations centered on business definition -- both how it was determined and the content of that definition. Businesses are typically defined in terms of their products (cf, Kotler, 1984; Wind, 1982). Distinctions are therefore made with respect to the number of products, the life cycle of those products, to whom they are sold, and how they are presented (or differentiated) from other products. These three factors are described in this study in terms of (1) a single versus multi-product orientation, (2) product life cycle, (3) target market, and (4) keys to success for the organization.

Product strategies are both affected by and affect the organizational context in which they are formulated and implemented (Galbraith and Nathanson, 1978; Miles, 1980). A firm's primary organizing scheme can be described in several ways. The most classic scheme examines the notions of differentiation and integration (Lawrence and Lorsch, 1967). Both the "horizontal" and "vertical" divisions of labor affect the dissemination of information and distribution of authority (cf. Mintzberg, 1979). In addition, an organization can be described in terms of the critical feature(s) around which it is structured formally and informally (Kotter, 1978). These features are described, respectively, in Exhibit 4.2 as (5) division structure, (6) degree

EXHIBIT 4.2

STRATEGIC CONSIDERATIONS

	Navy	Sky Tech	Leisure Products	Middle Bank	Metro Bank	Metro Credit
Single/Multi Product						
Product Life						
Market Target						
Keys to Success						
Division Structure						
Degree of Centralization						
Strategy Initiatives						
Driving Forces						

of centralization of the organization, (7) level at which strategic initiatives are taken, and (8) the major driving force(s) within the organization.

We also reviewed formal planning and human resource policies. Because we found very few organizational differences among the formal planning policies we do not provide a review matrix concerning planning. On the other hand, policies concerning human resource planning did vary widely across organizations regarding several key human resource factors. Accordingly, we examined these differences in light of a common functional classification (cf. Sayles and Strauss, 1981; Walker, 1980): (1) selection and placement, (2) appraisal, (3) development, and (4) reward. While many policies and practices fit under these categories, we focus on those that set the organiz s apart and which are most related to retention.

Rather than focus on selection and placement per se, we examined tne (1) character of the workforce, which, in turn, should influence a host of human resource practices. Because all organizations had similar, commonly prescribed yearly performance appraisal policies, we did not explore this issue in depth. Development was examined from a number of viewpoints with an emphasis on mobility. These factors included (2) salary level, (3) whether or not the firm had an established "fast-track" policy, (4) rate of mobility internally, (5) rate of mobility externally, (6) whether or not there was a systematized succession planning format, (7) the degree of formal training provided by the company, (8) when a formal review took place, and (9) the extent to which additional income (viz., a bonus) was based on a middle manager's performance. A matrix of organizational differences is provided in Exhibit 4.3.

It should be emphasized here that the elements just discussed are formal -- i.e., they are documented in organizational and industry reports. This information provides the foundation for examining the perceptions of the middle managers in the companies regarding how actual practices compare to externalities, organizational structures, and official policies.

Accordingly, the case studies are divided into three sections. The first section addresses the "objective" or "formal" elements of the situation. The second investigates managerial perceptions of key planning and human resource practices. The third summarizes the findings, emphasizing quintessential organizational themes. In conjunction with the pooled findings, these cases optimize description and generalizability.

EXHIBIT 4.3

HUMAN RESOURCE POLICIES

	Navy	Sky Tech	Leisure Products	Middle Bank	Metro Bank	Metro Credit
Workforce						
Salary						
Fast-Track System						
Mobility:						
Internal						
External						
Succession Planning System						
Training						
Formal Review Process						
Bonus						

METRO BANK

I. Environmental and Structural Features

A. Introduction to the Organization

Metro Financial Services, Inc. (MFS), the holding company of Metro Bank (the focal organization in this study), is a multinational financial services company whose subsidiaries and affiliates employ over 60,000 persons in approximately 2300 locations. In the past ten years Metro Financial Services has maintained its place as one of the nation's largest financial service organizations. Total revenues have grown at an annually compounded rate of 11.5% since 1977 while earnings have maintained 12.5% annually compounded growth over the past decade. Despite a recessionary economy, Metro Financial Services posted a 35% increase in earnings in 1982. Its earnings/revenue ratio currently ranks second among its immediate competitors, while its total asset increase has outpaced the field.

Metro Bank, MFS's domestic consumer banking operation, remains an important part of MFS's total business structure. Metro Bank offers full deposit-taking capability nation-wide and is preparing for full-service activity on an inter-state level. The major components of its current business are demand deposits, saving and time deposits and household and small business loans distributed through a full service and self-service branch network. Although it generates only 4% of Metro Financial Services, Inc.'s earnings on 7.6% of its total assets, Metro Bank has maintained consistent levels of profitability, and holds an approximate 20% share of its highly competitive regional market.

B. Current Industry Considerations

Metro Bank is presently affected by many of the industry changes also facing MFS. Formerly heavily regulated at the state and national level, the financial services industry is experiencing a major relaxation of structures that mandated the products and markets that could and could not be handled by banking institutions. A second important dynamic is the amorphous nature of competition in the sectors of the business in which MFS is active. The firm's major competitors will probably prove to be "financial supermarkets" rather than its traditional competitors, other banks. Shearson/Lehman/American Express, Sears, and Merrill Lynch are all developing the capacity to compete with MFS in several important product/market segments. Additionally, as the nature of the business becomes more clearly defined as highly dependent on information and communications technology, major actors in those industries, such as IBM and AT&T, may consider forays into financial services.

The dynamics of branch banking to date have been quite different than those of the overall financial services industry. However, there are many observers who believe that branch banking, as currently configured, will soon become vestigial as improved communications capabilities, less regulation on financial service operations' locations, and the high cost of these "bricks and mortar" operations combine to make branches a poor way to deliver financial services to individuals and organizations. Metro Bank's branches operate in a fully saturated, mature marketplace, and face the stiff competition from a variety of large and middle tier banks that usually marks a mature industry. To respond to this competition, most major banks with branch operations are attempting to improve their profitability by becoming low cost producers. The alternative strategy, providing differentiated high value services, is difficult to carry off in a market distinguished by easily replicable services with no proprietary protection.

Hence, like other banks, Metro Bank has recently been experimenting with new service configurations for branches to make them more efficient operations, trying such devices as more automated support for tellers, service tiering to provide a better match of service to the bank's profit on a given customer, and service pricing to encourage the use of ATMs. Additionally, as part of this effort, the Metro Bank recently consolidated its operations, reducing the number of its organizing regions to try to accomplish scale economies and eliminate certain functional redundancies. This followed a period in which it had attempted to improve performance through decentralization.

C. Metro Bank's Formal Structure

Metro Bank's association with MFS allows the bank to operate freely while taking advantage of the corporation's assets. The highly specialized nature of MFS's wide range of domestic and international operations creates a need for a high degree of regional autonomy and yet a highly formalized and centralized locus of power. The multi-level superior/subordinate hierarchy is well maintained and respected, and a standardized code of planning and personnel policies are applicable through-out the corporation.

Accordingly, Metro Bank is a geographically distinct component of the consumer branch banking business unit. The corporation's high level of decentralization is echoed within this branch banking division's own organizational structure. Managerial and supervisory control extends downward throughout the wide reaching regional branch systems. Operations within each branch are heavily line oriented. Regional managers contend with a daily assortment of regionally defined and, generally, isolated problems and responsibilities and rely upon little direct guidance from upper level district supervisors. District Managers and Officers in Charge have specific managerial responsibilities to their subordinates and customers and give direct input into the policy considerations of upper level management.

Similarly, two other features critical to MFS's success are practiced within Metro Bank. The role MFS has selected for itself places exceptionally high information gathering and processing demands on the organization. Given its intention to compete across the board in all realms of the financial services industry, it requires large amounts of information if it is to compete effectively. Metro Bank has also clearly chosen a route requiring an organizational design that enhances information handling capability. For example, the policy and planning mechanism includes top-down objectives and bottom-up review of objectives and provides a setting for dialogue that results in consensus or compromise. As part of one of the nation's largest financial institutions, Metro Bank has the competitive advantage of available capital and other resources that smaller banks do not. This factor, enhanced by its own large customer base, results in important economies of scale. Consequently, Metro Bank has the funds necessary to develop and implement new processing technologies like ATMs.

D. Human Resource Policy

Metro Bank prides itself on its loyal and dedicated work force. Three themes run throughout the company's official personnel procedures that could engender this loyalty: (1) the fair and equitable treatment of all employees and (2) efforts to retain and reward good performers, and (3) a commitment to train individuals as needed so that they have the up-to-date skills and can remain with the bank.

First, Metro Bank has a uniform reward and incentive system that standardizes promotional and salary levels organization wide and makes mandatory review of employees. At least once a year every employee and his/her immediate supervisor discuss the priorities in trade-off situations, the criteria used to judge performance (e.g., MBOs, performance standards), and the ways that task accomplishments relate to the realization of business strategies and goals. In addition to performance appraisal, supervisors conduct periodic "activity" reviews (weekly, monthly or quarterly as appropriate) with their subordinates to ensure current projects and activities relate to annual goals. Also annually, usually in late summer, every staff member is rated for salary purposes. Merit increases are earned by performance meeting or exceeding the requirements of the job. (Note: The salary review process is different from performance appraisal, which is used as a developmental tool more than a pay determinant.) To distribute merit increase dollars fairly, each Group and Staff Department must rate at least 70% of its staff as full standards, no more than 10% as exceptional, and no more than 20% as outstanding. If anyone's performance is judged unsatisfactory, corrective actions are taken.

Second, Metro Bank advocates a "promote from within first" doctrine that further enhances career advancement opportunities. As part of this doctrine, it has a formal vertical career-pathing network that encourages employees to seek new locations within the bank and appraises employees of vacancies. Exempt jobs are posted and announced in corporate publications like <u>Metro Opportunities</u>. Additionally, in an effort to recognize and reward specialists, a "senior" title and accompanying higher salary ranges for top performers with critical expertise, such as commercial lending, who have adequate time-on-the-job and demonstrated skill mastery.

Third, Metro Bank strongly supports the formal training and education of its staff. It reimburses employees for tuition and registration fees upon successfully completing job-and career-related courses at accredited colleges, universities, and certain technical schools. In addition, the bank devotes substantial resources to company-run training facilities and a variety of educational programs and services.

Evidence of the effectiveness of these human resource policies can be ascertained in part from the diversity of Metro Bank's managerial workforce. Even within the variations imposed by the sampling plan there was a broad mix of backgrounds. Time with the bank ranged from 4 years to 37 years, with a mean of 18.6; time in the current job ranged from 1 year to 12, with a mean of 3.7 years. Backgrounds ranged from tellers who had worked their way up to a VP or VP status, to MBAs and attorneys who had joined the bank upon graduation.

Within the next three to four years, Metro Bank anticipates that its work force requirements will be dramatically different. The core technology in consumer banking has traditionally been the branch system, the people and the "bricks and mortar." However, over time, processing technology ("back room" operations) has become increasingly important. As the relative cost of the traditional branch delivery system rises, it is unlikely to remain as the key technology. Rather, the ability to process and distribute information at low cost will become critical. Also crucial will be access to the expertise required to develop and deliver new products through the distribution system. Given the requirements, access to capital will be imperative, as will the ability to attract and retain staff with requisite skills. Furthermore, automated banking does, to a certain extent, eliminate jobs. The basic implication of Metro Bank's drive toward a new era of banking is that it is less labor intensive, and thus, requires revised training as well as outplacement policies and practices.

II. Perceptions of Key Planning and Human Resource Practices

In the previous sections we discussed the strategic and human resource issues and practices as they are officially stated and documented. However, one of the components of strategic management is the consistency between strategic direction, organizational policies, and the perceptions of those policies. In the following sections, we describe middle manager's perceptions of organizational structures and processes tied to organizational effectiveness and the retention of personnel. Specifically, we focus on their perceptions of planning and goal setting, motivation and incentives, and job mobility within and out of the firm. Serious gaps and inconsistencies between formal elements and perceptions of those elements are noted when they occur.

A. Perceptions of planning and goal setting

As noted earlier, the formal planning system tracks through the organizational structure. Initial planning targets are provided by Metro Bank and disseminated to the regions. Concurrently, unit managers, often with the input of their staff, work out their goals for the year based on their understanding of their marketplace. It is at this juncture that negotiations will take place, for the unit goals must aggregate to a level that allows the region to meet its goals.

As noted, the regional business manager is the fulcrum in the system. Most middle managers perceive him to be sufficiently powerful to negotiate with the Division. He faces the challenge of meshing the top-down and bottom-up elements of the planning process; clearly the former most often takes precedence. But there exists a perception that the system is flexible, and individuals often asserted that they could negotiate goals with their immediate superior if they could justify their position.

Once set, goals are specific, but subject to change. The flexibility of the system is perhaps a by-product of the pace of change at Metro Bank. The initial plans are often changed or ignored as priorities and target criteria shift to meet new goals that develop during the year. This flexibility is not without its downside. Some middle managers wondered if the bank needed to shift directions as frequently as it did, and whether top management had any long range plan for Metro Bank. As a corollary to this, some managers complained about the bank's changing direction without communicating the rationale or the implications. Two illustrations were offered frequently. First was the case in which products were advertised in newspapers, attracting consumers to branches before branch personnel had received any information, much less training, on how to sell these products. The second case was the consolidation of regions.

On balance, though, middle managers contend that a key to Metro Bank's success was its ability to discern and communicate current priorities. The most important things seem to be clear throughout the organization; as one manager said: "...no matter how many levels we had, if you talked to people at seven levels about what Metro Bank is after in a given time period, they will all say the same thing."

While the resource allocation process follows the pattern of planning, there is less perceived flexibility in the system, and budgets are not seen as being as responsive to changing priorities and needs as are programmatic plans. The power of the Division is more comprehensive here, and they are seen as being further removed from the needs of the units. The consolidation was seen as accelerating this trend. As might be expected, there was a great deal of resentment concerning cost-cutting and resource shortages. One manager asserted that the organization used to be goal-driven, but it is rapidly becoming cost-driven; the question has gone from "what can you do and how much will it cost?" to "what can you do with the money you had last year?"

B. <u>Perceptions of Motivation and Incentives</u>

The middle managers' perceptions of what Metro Bank did to motivate them almost universally centered around the organization's core values--it provided change, innovation, opportunity, aggressiveness, reward for performance, and market leadership. It is important to note that, with the exception of the reward structure (i.e., salary & bonuses), the determinants of motivation described by most respondents pertained to a constellation of organizational characteristics rather than explicit incentive systems.

It is particularly interesting to note the centrality of change in managers' responses. The bank has seemingly succeeded in institutionalizing an appreciation of change in its employees, including its older, more experienced staff. The mechanisms by which the bank has achieved this highly elusive goal seem to reflect its sheer size and the orientation toward risk and error that is a notable component of the organizational culture. Metro Bank can afford errors due to its size; given the critical nature of innovation in its strategy, some amount of risk and error must be accepted in exchange for advances; and, finally, an innovating organization requires error as a learning experience. The bank's acceptance of these facts is strongly consistent with its strategy (it does not expect to learn for free), and this value is generally attributed to the Chairman of the corporation.

Accordingly the increased centralization resulting from consolidation drew criticism from many middle managers. They felt that the bank's strength was its decentralized nature and the autonomy it afforded middle managers; this was clearly threatened, in their view, by the consolidation. If flexibility and control act as motivators, and for Metro Bank personnel they appear to, moving to a structure which is less "accommodating" has strong negative effects on motivation. Hence while most middle managers regarded the bank's pace of change as the single most problematic aspect of working for Metro Bank, they also recognized it as the basis for the opportunity and challenge they embraced.

C. Perceived Keys to Success and Movement

Individuals spoke of the challenge of their jobs, the diversity of things they do, the certainty that the next day would not be like the last, and most of all, the opportunity to move and grow that Metro Bank had afforded them. While we found that most of the middle managers in the other organizations spoke about having opportunity, the perception of opportunity at Metro Bank was qualitatively different, reflecting a sense that the bank imposed no limits on an individual's growth.

Metro Bank clearly stands in its employees' minds as a meritocracy and a technocracy. The two characteristics that almost all respondents mentioned as requirements for success were performance and the ability to respond to change. Many agreed with the manager who stated that "Success at Metro Bank is your own doing. You can go far." Aggressiveness and ambitiousness were also seen as crucial by many: "A desire to run the place is important if you want to go far." The bank is seen as being committed to rewarding performance and making the effort to identify good performers and to give them an environment in which they can learn and grow.

This is not to say, however, that the bank is seen as providing specific, identified development opportunities. The primary impetus to movement was individual initiative. The bank was neither a help nor a hindrance in a middle manager's movement to another job. The job posting system was mentioned as occasionally helpful. Most people complained that they did not have enough information about job opportunities within the corporate structure. Personal networking repeatedly was described as a key to successful movement, to both identifying openings and being chosen.

Due to consolidation of regions and functions, the opportunities for mobility have been less than they were two years ago. Some managers anticipate that there will be tremendous growth in opportunities once again when deregulation is complete. However, while the compression downward was typically viewed as temporary, a number of individuals felt demoralized by the current situation. Some saw it as a senseless reverting to an organizational form that had been tried and abandoned in the past. Others, particularly older employees, viewed it as a breach in the bank's implicit bond with and commitment to its loyal, long-term employees. Many throughout the system felt that good, competent people had been forced out of jobs with little concern for their well-being on the bank's part. This was reinforced by perceptions of the manner in which the consolidation and accompanying layoffs were accomplished, which was characterized by employees as "a Chinese water torture" done in "drips and drabs" so that individuals were made to feel highly at risk. These harsh criticisms, however, are not entirely consistent with other perceptual comments, nor with the actual outcome of the consolidation. Despite the concern of managers, fewer than five employees were outplaced.

The slowing down of job movement in many cases was described as healthy, particularly by the bosses interviewed. There were serious business repercussions with the former speedy movement, especially in terms of customer reactions. Almost 45% of the individuals interviewed now believe the optimal job tenure is at least three years. The mean anticipated total tenure on the current job for all managers interviewed was 4 years and over 55% of the sample expected to be on the job at least 3 years. These more sustained stays were typically seen as giving the manager time not only to understand his position, but to further it.

Moreover, Metro Bank people had a more positive employment attitude overall than other organizations' managers. The signal that was public/positive and relevant to the goal of corporate advancement was perceived by Metro Bank managers as more highly positive than the other firms. When a private/negative signal related to the corporate ladder goal was "given," Metro bank individuals reported a significantly lower probability of leaving than many of the other firms in the study. Finally, Metro Bank was the only organization in the sample that perceived a private/positive signal about corporate advancement to be favorable. Specifically, they saw a private discussion about high quality work to be a good sign, even though there would be no immediate advancement. Managers from other firms rated this signal as unfavorable.

It appears that the Metro Bank managers have a generally more positive attitude toward different types of signals than do managers elsewhere. This may result from the high level of opportunity generally seen at Metro Bank; there may not be the same level of concern about finding a "next step" in an individual's career path as in other institutions. Also, managers do not appear to worry about being fired because of one incident. Therefore, the high degree of basic job security felt at Metro Bank allows individuals to interpret things which happen in a positive light.

III. Summary

The information we obtained from different sources was relatively consistent with respect to the central issue of planning and goal setting, motivation and incentives, mobility and integration, and decisions to stay with or leave the organization. The notable discrepancy was the apparently unwarranted concern about losing jobs as a result of the consolidation.

The data make clear the key role played by the ability to accept and adapt to change. Change has been internalized by both the organization and its employees, and is viewed as a positive force for both. The planning system and reward system are structured to allow for the shifts in direction Metro Bank undertakes. This perceived flexibility provides for middle manager input into goal setting, relatively decentralized decision-making, and performance evaluation based on the ability to achieve the essential goals. Flexibility also permits middle managers to concentrate on current priorities, rather than feel committed to activities which are no longer salient.

The middle managers' acceptance of change is connected to the opportunities they have received as a result of the bank's search for new activities and new ways of doing things. Change is seen as bringing challenging work situations, diverse experience, and the opportunity for development. The middle managers interviewed were comfortable with Metro Bank's job movement policies. While consolidation created some temporary and dramatic changes in the number of job openings, most individuals had a strong belief that Metro Bank ultimately provides many opportunities for transfers, promotions, and growth. Hence, the bank was perceived as a meritocracy. This widespread belief in the fairness of the system is perhaps the strongest feature of the implicit contract between the organization and its middle managers and engenders a loyal workforce with high intentions to stay. Most criticisms of Metro

Bank's human resource practices were offered as "finetuning" of a tried and tested system.

Another key to middle managers' acceptance of the pace of change at the bank was the wealth of information they felt was generally available. In fact, the organization's methods for acquiring and processing information, and acting on and reacting to its environment, emerged as a hallmark of the firm. Despite some complaints about bureaucratically-induced communications gaps, the overwhelming impression is that there exists a dense, if sometimes chaotic, information flow within the organization that is both top-down and bottom-up. This rich flow of information allows the Bank to move quickly and aggressively as it sees opportunities. The importance of information processing is not surprising when viewed in light of the requirements of Metro Bank's strategy.

A key aspect of Metro Bank's innovativeness is its willingness to accept risk and allow for errors. One manager said, "If you lose in a risk here, they're not going to kill you as long as it was a responsible try." This is a crucial characteristic of the organization, and a powerfully necessary one if the bank is to retain its innovative nature. Innovation and experimentation cannot survive in an environment where the penalty for failure is high. The bank's sheer size permits room for error, and perhaps as a result of this size, the bank's culture "embraces" error.

In summary, the ability to accept change, remain flexible, and take risks depend on other important features of Metro Bank as an organization, notably, information, security, and tolerance for error. The human resource policies and practices which make this possible are key to the organization's ability to meet the challenge of a changing industry.

METRO CREDIT

I. Environmental and Structural Features

A. Introduction to the Company

Metro Credit is a fully integrated, independently operated subsidiary of Metro Financial Services. It provides a wide range of asset-based finance (ABF) products and services to corporate clients throughout the U.S. As such, Metro Credit is a relatively new entrant in a newly emerging area which in the early 1980's was also the fastest growing form of corporate finance.

In line with the industry, growth performance at Metro Credit has been steady and substantial. In 1982:

- Return on total assets of approximately 9% and return on equity of over 20% exceeded budgeted and institutional targets;
- Annual earnings climbed by more than 200% to represent over 4% of Metro Financial Services' total earnings;
- New business increased by more than 150%, breaking all past annual total dollar increases; and
- Total employment increased by almost 6% to just under 1,100 persons.

That Metro Credit has budgeted for increase in earnings of over 30% for 1983 suggests that it is confident about the continuation of trends in corporate growth.

B. Current Industry Considerations

The demand for asset-based financial services is in a state of rapid growth. Since71970, it has increased at an annually compounded rate of 18.5 percent. Metro Credit and its major competitors have all benefited from this industry expansion.

Barriers to entry in this business are more organizational than monetary.

The business is not capital intensive and employs a relatively small support staff. Salary expenses generate a high percentage of operating costs while fixed overhead costs are small (relative to branch banking). The most significant requisite to entry is a sound and prominent financial reputation which precedes and supports the successful marketing and implementation of one's ABF services.

Client corporations are often in immediate need of assistance and are unable to assess the quality (determined by the financial outcome) of the product or service they purchase. Furthermore, without knowledge of the returns from competitor's products, a client has little way of differentiating among choices. Hence, affiliation with a creditable institutional source of capital also makes participation less difficult. As a result of these barriers, seller concentration is quite high, with a fairly small number of very large highly integrated, multi-service financial institutions capturing a large share of the business.

The business units whose products involve the lending of large amounts of capital depend upon continued innovation in the methods of financing that they employ. Failure to be creative eliminates one's comparative advantages and transforms the product into an undifferentiated commodity (everyone's money is green). High value-added products can be preserved only through persistent changes in the methods of financing which are devised and implemented. High cost, labor intensive products can only compete when costs are held to limited growth. Increased systems sophistication has been critical to the maintaining competitiveness.

C. Metro Credit's Formal Structure

Metro Credit is a subsidiary of Metro Financial Services. Its organizational design and corporate planning function are subordinate to corporate policy and control. However, it is allowed substantial freedom in designing its own corporate strategies. Its organizational hierarchy is horizontal and diffuse. There are three managerial levels: the Chairman, business-unit managers, and regional managers. A high level of diversity in regional characteristics and client needs requires a high degree of job specialization and regional autonomy. Furthermore, business at the regional level is often solicited, developed and performed by the same executive. Client services are generally custom designed.

In terms of its planning system, Metro Credit's strategic directives are initiated by planning executives at Metro Financial Services and then passed down to its planning board. These directives (the Strategic Plan) represent policy issues rather than tactical ones, and attempt to highlight general areas of concern(e.g., emerging growth sectors, or the impact of tax law on new business) rather than impose specific earnings scenarios. These directives do, however, provide a reasonably clear set of guidelines (or ranges) around which assets, earnings and expenses are expected to fall. While strategic planning from the top-down attempts to monitor or forecast growth patterns for one to three years hence, operational planning concentrates on annual budgets tracked on a monthly basis. Given rough working parameters, Metro Credit planning officers (the chairman and business unit managers) establish a level of performance for their businesses. Each manager constructs monthly pro formas that, upon critical review by regional managers, are accepted as budgeted targets. These targets represent the yardsticks against which annual performance is measured.

Hence, control is not centralized through formalized behavioral standards but rather through closely monitored financial progress targets that include budgeted rates of change for (a) return on assets, (b) total earnings, (c) itemized expenses, and (d) new business volume. These financial performance guides act collectively as a planning and control system that allows individual license and yet emphasizes corporate objective.

In terms of its many products and services, Metro Credit nationally distributes them through a network of regional branch offices, each of which is managerially self-sufficient and entrepreneurial. These offices generally consist of two or more small, well-integrated business teams. New Business teams develop lists of perspectives clients, generate contacts, and negotiate and structure financial packages. Account Management teams supervise the application and maintenance functions. In some offices, these teams have been merged. In most cases, the regional offices of Metro Credit are the distributors of their own products and services.

However, these offices also provide Metro Credit and Metro Financial Services with the outlet potential necessary to distribute some products and services that might otherwise not be possible to market in different regions. As intermediaries, regional offices receive resources from Metro Credit and Metro Financial Services and transform them into marketable products to be distributed. In this case, regional offices become the second or third step in the distribution process.

While Metro Credit is instrumental in the profitable utilization of the corporation's resources, Metro Financial Services is, in turn, invaluable to the marketing of Metro Credit's financial service capabilities. It can utilize the economies of scale offered by Metro Financial Services' large information and communications capability and well-established national branch office network, and from its extensive corporate customer base. More importantly, Metro Credit gets new clients largely through referrals based on the prominence of the corporation and the quality of its reputation in the market place. Although Metro Credit devotes substantial cost and effort to a wide-spread advertising campaign to potential corporate customers, its primary marketing attribute lies in its affiliation with its parent, Metro Financial Service, Inc.

D. Human Resource Policies

As a wholely owned subsidiary of Metro Financial Services, Metro Credit is covered by Metro Financial Service, Inc.'s Human Resource Management policies, which are identical to those described for Metro Bank above. These policies include a centralized system of job identification and employee accountability and extensive training offerings.

As for future personnel needs fueled by continued growth in the industry, it is likely that there will be included a substantial increase in the number of high-salaried financial talent. Given Metro Credit's strategy of adding value in an industry that is still service driven, the role of employees is critical. There is no evidence that this role will, or should, decline. The products of Metro Credit are not amenable to standardization or replacement by technology. Managers may find technology growing in importance, but clearly as a support to them rather than as a replacement for them.

II. Perceptions of Key Planning and Human Resource Practices

In the previous sections we discussed the strategic and human resource issues and practices as they are officially stated and documented. However, one of the components of strategic management is the consistency between strategic direction, organizational policies, and the perceptions of those policies. In the following sections, we describe middle manager's perceptions of organizational structures and process tied to organizational effectiveness and the retention of personnel. Specifically, we focus on their perceptions of planning and goal setting, motivation and incentives, and job mobility within and out of the firm. Serious gaps and inconsistencies between formal elements and perceptions of those elements are noted when they occur.

A. Perceptions of Planning and Goal Setting

The goal setting system in place at Metro Credit is in keeping with its generally decentralized nature. The system is driven through the regional network and is generally organized around the different product lines. Top management usually establishes broad targets for the company, but these are perceived as only guidelines; the gist of the planning process take place at lower levels in a highly interactive fashion.

Critical to an understanding of the planning process is recognition of the nature of Metro Credit's work. The almost total emphasis on individually-initiated transactions that require long gestation periods implies certain characteristics necessary fo an effective planning system. The Metro Credit planning process illustrates these requirements. Planning at Metro Credit is perceived as a highly flexible and individualized process. Senior officers within product groups within regional offices work with their people to develop a sense of what is "in the pipeline" for the planning horizon. In a deal-based environment such as this, it is essential that the transactors provide a realistic input to planning, for their knowledge is critical. Most participants in the process characterize it as a negotiation, in which people "buy in" to the unit's ultimate goals. The latitude a manager perceives in the process proved to be closely tied to position; vice-presidents saw more than assistant vice presidents, who saw a great deal more than account officers. This process is repeated at successively higher levels and is iterated to the point where the discrete unit goals aggregate to the desired corporate goals.

The most common complaint heard at Metro Credit in our interviews pertained to the changing nature of the planning process, as it reflected a widespread trend toward increasing top-down management. The perception was strong that goal-setting was becoming less of an interchange and more of a mandate, and that this was having deleterious effects on the feelings of autonomy and freedom that are imperative to the middle managers with whom we spoke. The increasingly bureaucratic nature of the firm seen by employees manifests itself in several ways; most are viewed as inconveniences, but this perception of increased centralization and reduced autonomy in goal setting and deal-structuring was regarded as a serious threat to the organization's effectiveness. However, a number of respondents saw increasing bureaucratization as an unfortunate but necessary concommitant of organizational growth.

Resource allocation generally follows the process described for planning, although fewer managers are involved. The issue of resource allocation at Metro Credit is actually two component issues: people and everything else. Headcount constraints were an issue for several respondents. Both the difficulty inherent in getting approval for a new position and the bureaucratic obstacles that ensue in the process of attempting to hire new people were mentioned prominently in these discussions. There are others who say that, with sufficiently convincing argument, new positions can be created; on the whole, though, this is a sensitive issue at Metro Credit.

There were no complaints about the availability of other resources, such as expense funds or information -- with one exception. Several middle managers expressed the opinion that it is very difficult to attract other

Metro Financial Services, Inc. units to cooperate with Metro Credit on joint projects. The inter-unit competition that prevails within the corporation -- the "creative tension" that one manager spoke of -- creates disincentives for such ventures, with each unit zealously guarding its own perceived turf. Therefore, some Metro Credit staff see themselves as being deprived of some of the valuable resources of the corporation, including both contacts and expertise.

B. Perceptions of Motivation and Incentives

The key to motivation at Metro Credit seems to revolve around the perception that the organization gives the employee a difficult and challenging job to do -- and then stays out of his way and lets him do it. Virtually all Metro Credit respondents cited the challenge of their work and the autonomy and freedom they have in doing it as the major attractions of working for Metro Credit.

The nature of the work itself was appreciated by the middle managers. Customized structuring of complex financial deals gave responden7s the opportunity to be innovative and creative; they saw the organization as encouraging transactors to find new ways to do things at every turn. A key part of this encouragement was in the autonomy they were granted. The decentralized relationship between headquarters and the regional offices was seen as an integral component of Metro Credit's success. In its absence, most believe, a lot of the motivation that stems from essentially building one's own deals would crumble.

Another aspect of this freedom was the opportunity one was given to try new things and move up within Metro Credit. In the words of one respondent, the corporation creates an environment that says "it's up to you to take advantage of this, the sky's the limit, find your way there." There also is a strong belief that people in senior positions are there because of superior performance. This is accompanied by respondents' admiration for their peers.

There were several major demotivating factors in evidence at Metro Credit. They pertained to the increasing bureaucracy and its effects on individual autonomy, and to compensation. Many managers noted how more and more of their time was being spent on reporting requirements, robbing them of valuable time that could be directed toward business development or other more relevant work. Goal setting was seen as becoming more directive recently, and the autonomy of the regional offices was seen as being threatened. This is an extremely sensitive issue, because it strikes directly at the core of motivation for many of the respondents: their freedom.

This is particularly true given the expressed attitude toward compensation. The feeling exists that Metro Credit pays the absolute minimum required to retain the bulk of its people; the pay is seen as adequate, but no more. Equally strong is the belief that, given the type of risks that the transactors take, they are undervalued by the corporation. Most attribute the salary scale problem to being bound by the corporation's banking-based guidelines.

Bonuses were a particularly touchy issue. The nature of the work demanded incentive-based recognition, in the minds of many. Yet the bonuses available were limited in distribution and in size. Most believed they were inadequate. There is a clear feeling that it is difficult for the firm to hold its top performers in such a circumstance.

C. Perceived Keys to Success and Movement

The middle managers' perceptions of the requirements for success at Metro

Credit were focused and consistent. They are founded on the notion of Metro Credit as a meritocracy, in which high performers will be recognized (if not sufficiently compensated).

Creativity and innovativeness were highly valued, since the very nature of the business demands that new products be developed so that Metro Credit can remain on the leading edge. Commensurate with this is the organization's willingness to take risks

Several respondents noted that an individual had to be able to communicate effectively, that making one's point -- and sticking to it in the face of supervisors' questions -- was an important part of the aggressiveness that marked Metro Credit people. And, as one respondent noted: "no one will ever be penalized for being too aggressive in this organization."

Individual's positive feelings about Metro Credit were captured in their descriptions of developmental opportunities. Typical comments about the corporation included that "it is 100% behind anything that will enhance the individual and the job," and that it "wants you to be the best you can be."

Metro Credit rated high marks for its formal training efforts Officers lauded Metro Credit's practice of sending officers to seminars for four to five days per year as well as its 100% tuition reimbursement policy for work-related courses. Two in-house programs were singled out as a benchmark.

Those interviewed were clear about Metro Credit's expected return for its investment of time and money into individual development: middle managers believed that they were given more responsibilities than counterparts in other corporations and that they were expected to perform after initial training efforts with little additional guidance or support. When asked what they would change, middle managers suggested more cross-training and a relaxation of current overhead restrictions that made it difficult to send everyone to the valuable courses that Metro Credit offered.

While most middle managers described Metro Credit as having a genuine commitment to human resources development, there was a small vocal minority that claimed Metro Credit places no value on employee development. They suggested that, in the course of promoting entrepreneurship, Metro Credit had bred extreme selfishness and the attitude that "people are as expendable as pencils." While their conclusions were different, their supporting examples were similar to the features that advocates of Metro Credit's development efforts identified: excellent initial training, early responsibility without much supervisory coaching, no cross-training, and current budgetary constraints.

In terms of growth and change through internal job mobility, those interviewed strongly held the belief that Metro Credit promotes the most qualified people. The major dissatisfaction was the limited number of job opportunities available to Metro Credit officers, particularly outside their current discipline, rather than challenging assignments or equity.

Personal networking was described as a key to successful movement; managers learned of job opportunities and advanced according to the contacts they made. The job posting system rarely was mentioned as helpful. The importance of contacts was in no way unique to Metro Credit. However, if networking is to play such a role, then it is essential that individuals have the opportunity to network; and therein lies the crux of the problem at Metro Credit. Opportunities within any specific Metro Credit group are limited, and individuals experience isolation with respect to other MFS subsidiaries, Metro Credit business segments, and Metro Credit geographic regions.

Managers observed that the flow of people tends to be from other MFS units into Metro Credit and not in the reverse direction. The reasons offered for this human resource flow ran the gamut. Some managers suggested that Metro Credit was the most exciting MFS place to be. Others suggested that the skills developed at Metro Credit were unique not only to Metro Credit but their particular business line. Still others suggested that Metro Credit employees were misunderstood, undervalued, and ignored by the parent company.

The middle managers' response to organization signals further reflected their external as opposed to internal employment focus. The few deviations from aggregate results were in terms of the effects that signals could have for the individual in the external marketplace. For example, in the case of the public, positive signal relevant to corporate-ladder advancement, the perception on the part of the Metro Credit sample was more positive than for any other company regarding the signal's impact on external positive than for any other company regarding the signal's impact on external position, reputation and visibility. Also with respect to the private, negative signal (advancement related as well), Metro Credit managers perceived a stronger negative effect externally than did most of the other sites. Further, they rated the signal most negatively of all participating companies.

III. Summary

The information we obtained from different sources was relatively consistent with respect to the central issues of planning and goal setting, motivation and incentives, mobility and integration, and decisions to stay with or leave the organization. Three themes recurred and helped weave together our finding; they are flexibility, professional excellence and independence.

The data make clear the key role played by flexibility. Change and innovation have been internalized by both the organization and its employees, and are viewed as positive forces for both. The organizational structure and planning system are designed to allow for the shifts in the direction which Metro Credit undertakes. They provide for middle manager input into goal setting, relatively decentralized decision-making, and performance evaluation based on the ability to achieve essential goals. These flexible organizational features also permit middle managers to respond to a volatile environment and to concentrate on current priorities rather than feel committed to activities which are no longer salient.

Metro Credit managers spoke at length about the expectation of creativity within the organization. Given the customized nature of many of their transactions, the respondents constantly sought new ways to do things. This was heavily encouraged by the organization, and was seen as a distinguishing characteristic of both Metro Credit and Metro Financial Services, Inc. Innovation is seen as the method by which the firm can retain market leadership in an industry without any type of proprietary protection. As one noted: "Metro Credit is a niche seeker, but not a niche dweller."

The middle managers' drive towards flexibility and innovation is connected to the pursuit of professional excellence in a highly autonomous setting. Metro Credit was perceived as a meritocracy of individual contributors. Opportunities for individual initiation and achievement are perhaps two of Metro Credit's strongest attractions. This working environment, however, is not without its downside. Middle managers not only felt isolated from the parent corporation but from Metro Credit managers in other business lines and other geographic regions. Consequently, their work identity was at times as strongly linked to the industry -- to counterparts in other companies -- as it was to MFS.

This last fact suggests that Metro Credit must continue to monitor and adjust its human resource management practices. Individual managers are feeling more and more hampered by New York and its increasingly demanding bureaucracy. Moreover, slower information and long decision-making time seriously affects necessary quick response time. It is the ability to have a free hand, to aggressively pursue work goals, and to "be with the best," that keeps them at Metro Credit. They already feel underappreciated and underpaid for their special expertise and the risks that they take. If the main incentives, the core cultural values, are removed, then Metro Credit faces losing its highly self-motivated work force, which is critical to its strategic approach.

MIDDLE BANK

I. Environmental and Structural Features

A. <u>Introduction to the Organization</u>

The Bank Holding Company (BHC) is a bank holding company providing diversified financial services to corporations and consumers through several fully integrated bank and banking related subsidiaries. BHC ranks among the top 50 regional bank holding companies in the U.S. in asset size. BHC has total assets of between $7 and $10 billion, total deposits of between $3 and $5 billion and total shareholders' equity of $300 to $500 million. BHC employs 4000 to 6000 employees. Its consolidated net income for 1981 was between $30 to $50 million.

BHC was created as a holding company within the past 15 years. Prior to BHC's creation the institution existed as Middle Bank. The Bank is the Corporation's primary subsidiary from the standpoint of size, profitability and organizational focus.

In addition, BHC has several other subsidiaries far smaller than Middle Bank. These subsidiaries are each engaged in banking related businesses. Fifteen percent of BHC's earnings per share is earned by subsidiaries other than Middle Bank. Every one of BHC's subsidiaries is either wholly owned or controlled by BHC, or in some cases Middle Bank. All of the subsidiaries are geographically concentrated in BHC's primary operating area. The subsidiaries are operated as divisionalized profit centers.

BHC's principal subsidiary and core component is the Middle Bank. Middle Bank is one of the older, established banks in its market area. Middle Bank employs over 60% of BHC's total number of employees and was responsible for over 85% of BHC's earnings in 1980. The other subsidiaries that are part of

BHC exist to supplement or complement products and services offered by Middle Bank. The holding company itself exists as a legal and financial formality to combine subsidiary businesses with Middle Bank.

Middle Bank's solid reputation, experience, and financial success have grown primarily through its competence in commercial banking activities. Historically, Middle Bank has emphasized lending to corporations over all other functions. More recently Middle Bank has become a leader in consumer banking. In addition to commercial and consumer banking Middle Bank offers banking and bank related products in trust and investment services.

Commercial Banking

Middle Bank's present strategy for commercial banking focuses in four areas. First, Middle Bank aims to serve the "large corporate market" located in the geographic area it has traditionally served. To these customers Middle Bank offers loans and cash management. As a regional bank Middle Bank competes for those large corporate customers that maintain a local presence. Typically these customers would use Middle Bank services in addition to the services of one of the largest money center banks.

Second, Middle Bank focuses on the smaller, faster growing businesses in the local region. This "regional middle market" has been the source of Middle Bank's growth and development throughout its history. It is still their strongest market.

Third, Middle Bank has developed particular strength in international banking, which has given it a competitive edge in positioning itself as the principal bank for middle market companies and the regional bank of choice for the national and international companies operating in its geographic region. Middle Bank is among the top 15 U.S. banks in international money movement operations. International banking services provided by the bank include making of loans and acceptances, letter of credit financing, and foreign exchange trading.

Fourth, Middle Bank has aimed at the "specialized lending markets" in market areas such as commercial finance, factoring, mortgage banking services and asset based lending. While these services are marketed by Middle Bank as part of its commercial banking product portfolio they are actually provided by other subsidiaries of BHC.

Middle Bank's strength in serving its commercial customers is complemented by several "high tech" services it operates as cost centers. In the area of funds collection services it offers a technologically advanced lock box system and automated cash position reporting. Middle Bank is also strong in providing "account reconciliation plans" and "integrated funds transfer systems."

Consumer Banking

Middle Bank entered consumer banking relatively late but progressed quickly. In less than 10 years Middle Bank has increased markedly its total consumer deposits and has become a formidable competitor in this area. While an older, traditional institution, Middle Bank is capable of moving rapidly and competing well.

Middle Bank has come to dominate the consumer segment in total deposits in its market area by:

- offering special packages of banking services to target consumers at the high end of the market--customers who maintain high bank balances.
- increasing the size of its consumer market for the lowest cost by expanding its ATM network.

- o expanding consumer services such as credit card issuances while taking steps to increase the profitability of credit card operations.

B. Current Industry Considerations

The banking industry is responsible for a number of activities, among them taking deposits, making loans, providing financial services to other banks, governments, corporations and individual consumers. Banks perform financial intermediation, that is, they accept funds from individuals and corporations that wish to save excess funds and lend these funds to borrowers who require capital for investment.

The major source of income for banks is profit earned from spending less on interest payments to depositors than is earned by the interest received of funds loaned out. This difference between rates received on loans and rates paid on deposits is called the "spread." Banks also earn income from non-interest "fee-based" sources such as underwriting government securities, trading in foreign currency, and performing trust services. Another source of "fee-based" income is selling a variety of financial advisory services.

The past was characterized by profitability based on the fact that funds were loaned out to commercial customers at the prime rate using personal deposit funds that cost very little in interest payments. The "spread" between the lending rate and the cost of funds was sufficiently large. A large retail customer base assured profitability.

The present is characterized by a more sophisticated consumer demanding better interest on his deposits. Banking customers are requiring/demanding services and learning to "shop around" for banking services just as they would for any other consumer product. Increasing competition for the base of retail banking customers has resulted in downward pressure on prices, thus decreasing spreads and profits.

The price/cost structure of the industry has seen essential change. Low value added products such as back-up credit and conventional lending have become commodities. Prices are under severe pressure; lower costs are the key to profits. High value added products such as cash management and syndicated credit management are more amenable to product differentiation and less sensitive to price pressure. Opportunities exist in developing expertise and reputation rather than minimizing costs.

As demand for banks' services is becoming more elastic the smaller banks are responding by learning to differentiate on the basis of the quality of fewer services; they are learning that it is uneconomical to try to deliver all things to all customers. Banks are targeting specific customer groups and integrating services to better integrate their needs rather than trying to offer a broad range of general capabilities to serve all customer groups.

Federal and state regulations have protected markets for deposits. In essence, local banks were granted a franchise over these deposits. Only regional and local banks have an established presence in the retail markets because outside banks from other states and counties have been excluded. In the future restrictions on deposit gathering will be removed. Many out-of-state banks will take advantage of these developments to enter previously barred markets.

As banking regulations are dismantled in the 1980s the real shock to the regional banks will come in the area of consumer banking. Here the money center banks, many already with local loan production offices or subsidiaries, could be free to compete with the regional banks for consumers.

One result of the change in banking laws has been an increase in bank merger activity and industry concentration. In anticipation of total deregulation, banks are increasing their scope of operations by acquiring of merger with other banking institutions. From the viewpoint of a regional institution (such as Middle Bank) potential competition with a major money center bank can be a threatening scenario. One competitive posture for a regional bank is to increase its size and scope within its region so as to become a more formidable regional competitor when deregulation finally occurs.

The Bank Holding Company acquired the Industrial Financial Corporation (IFC), whose principal subsidiary, Industrial Bank, is headquartered in a nearby city. The merger will require the two banks to establish uniform policies and procedures and central administrative offices. Industrial Financial Corporation employees will become employees of BHC.

The combination allows both BHC and IFC to lever their presence in their neighboring market areas and compete more effectively in wider area surrounding their home territories. More specifically, Middle Bank gets access to Industrial Bank's customer base which has greater growth possibilities than Middle Bank's home territory. Middle Bank also has access to Industrial Bank's retail customer service capabilities. Industrial Bank benefits through access to Middle Bank's more sophisticated financial services, its international banking services and its cash management services. The combination of BHC and IFC will comprise a stronger competitive force in the growth areas of the 10-15 counties surrounding their combined market area.

C. Middle Bank's Formal Structure

Middle Bank is a divisionalized organization characterized by a clear chain of command. The major elements of the hierarchy include the Office of the Chairman; a set of groups (managed by Executive Vice Presidents); Divisions organized around key markets or operating functions (managed by Senior Vice Presidents in most instances); and Departments which contain

Sections and Units (headed by Vice Presidents).

Middle Bank is a centralized organization. There is a clear sense of control emanating from the Chairman's Office. This is evidenced by the fact that the major decision-making responsibility in the organization lies with the Chairman, the Deputy Chairman, or the President.

The planning and goal-setting, resource allocation, performance evaluation, and reward systems used by Middle Bank all flow through the organizational structure sketched above. All business goals and strategies cascade down from the Office of the Chairman, acting in consultation with the Executive Vice Presidents. Knowledge of the content of these overall goals and strategies is limited at lower levels of the organization, and are revealed by higher echelon officials on a "need to know" basis.

The major mechanism by which goals are communicated is the Performance Agreement to which each employee commits each year. Goal setting is generally viewed as top-down in nature, consistent with the general operating philosophy observed at Middle Bank.

The key operating process in virtually any organization revolve around the acquisition and communication of information. This information is then used as the basis for decision-making. The manner in which these processes function at Middle Bank provides insight into the essence of the firm. As noted above, the financial services industry is becoming more information-intensive. Within Middle Bank the flow of information is tightly controlled and directed. There is strong guidance of information flow on the part of top management, and the key to information flow at lower levels is management's conception of "need to know." Information is disseminated only to directly assist in task accomplishment. Decision-making is equally centralized and concentrated at the senior management level.

The concept of "need to know" information flow is deeply entrenched in the organization, as is centralized, top-down decision-making. They are, in fact, core operating principles that define the institution for many employees. There is great faith in the legitimacy of this structure and the ability of the top managers to direct the bank effectively.

D. Human Resource Practices

Middle Bank is committed to providing a fair and objective system of performance evaluation that includes a job description and statement of job requirements. Middle Bank makes it the responsibility of each supervisor to explain to his employees how performance is measured and to provide personal feedback on how well actual performance measures up to job requirements. Salary increases and promotions depend heavily on evaluation of total performance as reflected in annual appraisals.

Middle Bank's compensation package for employees attempts to balance internal equity against the labor market for a particular position. Internally Middle Bank seeks to pay employees according to their level of performance as judged by the performance evaluation. Middle Bank also seeks to rate its jobs by comparing them to other jobs in the bank and to the same jobs in other banks.

Merit increases are particularly dependent on internal performance assessment. There are 4 levels to the evaluation instrument, each rates a different maximum merit increase:

Performance Ratings	Maximum % Merit Increase
Below Requirements	3%
Meets Requirements	9%
Exceeds Requirements	11.5%
Superior	15%

The bank has incentive programs that can represent up to 200% of an to rate its jobs by comparing them to other jobs in the bank and to the same jobs in other banks.

Merit increases are particularly dependent on internal performance assessment. There are 4 levels to the evaluation instrument, each rates a different maximum merit increase:

Performance Ratings	Maximum % Merit Increase
Below Requirements	3%
Meets Requirements	9%
Exceeds Requirements	11.5%
Superior	15%

The bank has incentive programs that can represent up to 200% of an employees' base salary. The base salary for jobs that qualify for incentive payments is generally lower. Incentive programs are not offered in areas where overly aggressive performance could lower overall bank standards (e.g. loan quality). These jobs therefore have a higher level of base salary to make up for lower upside potential.

II. Perceptions of Key Planning and Human Resource Practices

In the previous sections we discussed the strategic and human resource issues and practices as they are officially stated and documented. However, one of the components of strategic management is the consistency between strategic direction, organizational policies, and the *perceptions* of those policies. In the following sections, we describe middle manager's perceptions of organizational structures and processes tied to organizational effectiveness and the retention of personnel. Specifically, we focus on their perceptions of planning and goal setting, motivation and incentives, and job mobility within and out of the firm. Serious gaps and inconsistencies between formal elements and perceptions of those elements are noted when they occur.

A. Perceptions of Planning and Goal-Setting

The planning and goal-setting system at Middle Bank adheres strictly to the organizational structure outlined earlier. It is a top-down system with virtually all decision-making centralized at the top of the organization. The strategic plan for the organization is developed by drawing on the expertise of the bank's most senior managers; it is not revealed to managers below the divisional level except on a "need to know" basis.

Business targets are driven by the organization's strategic goals. These are generally the central elements of the annual planning process, which is in large part an allocation process across divisions ensuring that the bank's goals can be achieved. At each stage of the process, successively lower levels of management parcel out increasingly specific goals.

The process is not solely a one-way interchange. Budgets and programs are suggested and submitted by lower levels, but the wide-spread perception is that all important goals, programs, and decisions are the responsibility of the highest levels of management.

The perception among employees corresponds to the structure described earlier. More so than the other organizations in the study, Middle Bank managers characterized the system as top-down. In the words of respondents: "I suspect they make a stab at listening to the bottom, but in practice it always comes down," and "You do your duties here by what is directed down from the top." This system is seen very positively, bulwarked by the prevailing faith placed in the competence of senior managers by Middle Bank respondents.

The major device by which goals are disseminated to individuals is the performance agreement. This document, usually prepared by an individual and his manager, specifies the achievements expected of an individual during the coming year. Through this process the manager assigns responsibility for the unit's goals to the members of the unit. This process is somewhat more interactive than the overall planning process; individuals, after being told of the unit's goals, are asked (by some managers) to construct agreements that detail what they believe they can contribute to the unit's goals. This can then be negotiated somewhat. Other managers, however, simply instruct their subordinate managers as to what is expected of them.

The performance agreement becomes, for many, a central part of the performance evaluation process each year. It is seen by many as a fine method for encouraging constructive feedback. For others, however, it is taken "with a grain of salt" (in the words of one respondent); its usefulness is, according to many, a function of the individuals involved.

The resource allocation process mirrors the planning process. Budget requests are reviewed by senior managers, beginning at the Divisional level and proceeding through "everybody above him up to the Chairman," according to one respondent. This process is viewed as very strict, with strong justification required for all additional resources. It is seen as having intensified since the cost-cutting processes of the early 1980s were instituted.

Even more than in the planning process, resource allocation decisions are seen as coming from the Office of the Chairman. This perceived personalized degree of control is unique among the organizations in the study. While Middle Bank's relatively smaller scale permits this, there are strong cultural factors supplementing this structural explanation.

The issue of communication and information flows was a complex one at Middle Bank. Several respondents spoke of the organization's commitment to communications, describing breakfast meetings between senior managers and lower-level employees, newsletters, and quality circles that demonstrate this commitment. Many others, however, asserted that one of the key weaknesses of Middle Bank was the very poor communication of overall business goals and the fact that many things are revealed only if the "need to know" criterion is satisfied.

The explanation for these contradictions extends beyond simple disagreements. The answer, rather, lies in the different types of information these groups were discussing. It appears that middle managers perceive the bank to be serious about listening to employees' views on internal operations and processes--the day-to-day workings of the bank. It does not, however, have this commitment to sharing information that pertains to the business side of the bank--strategic directions, goals, and programs. This is clearly seen as being in the purview of senior management, and not relevant to others.

B. Perceptions of Motivation and Incentives

It is important to note that, for the most part, the determinants of motivation described by most respondents pertained to a constellation of organizational characteristics rather than explicit incentive systems. This is consistent with our findings in all sites but one. The typical direct organizational activities usually thought of when motivation is discussed are no more important--and, our data suggest that they may be less important--than indirect aspects of how the organization does business. If our sample firms are indicative, people are clearly linked to organizations in a manner much more complex than a simple monetary exchange.

More so than any other organization in the study, the motivating forces which bind Middle Bank middle managers to the organization are personalized, with a strong affiliation with the organization. While they were like others in mentioning job challenge and growth opportunities, they diverged significantly in their emphasis on the quality, integrity, and especially the humanity of the firm as personified by its senior management, the organization's "elite, prestige aura," and the quality of the people with whom they work.

Senior management defines Middle Bank for the middle managers with whom we spoke. The consistency with which respondents mentioned top management as a motivator and an attraction of the bank is striking. Top managers at Middle Bank are seen as possessing "sound," "prudent," "conservative" business judgement that has always stood the bank in good stead, enabling it to avoid entanglements such as those encountered by some of its rivals.

Central to the link between Middle Bank and its employees is the conception that "management here is very caring." A significant majority of respondents described the bank as "a people-oriented" organization, and virtually all ascribed this orientation to the Chairman of the Bank. The belief that "management has a personal direct touch with employees," that there is a "paternal" relationship between the firm and its employees was widely echoed.

There is little distinction between top management and the organization for most middle managers. Words similar to those above were used to describe the bank. There is a palpable feeling of pride in the organization among the middle managers. Middle Bank is seen as an organization above reproach in its integrity, one committed to providing service to the community. Time and again, respondents spoke of the psychic benefit of working for the "best bank in town," with "some of the best minds in the city."

It is this strong affiliation that appears to underly motivation at Middle Bank. It was expressed well by one middle manager who stated that it was like "I'm producing for part of my family--the company is like a part of my family. I'm proud to work for the people I work for." Another spoke of how this was "a corporation with a heart. There's honesty and class within the individuals who run this bank." This focus on the <u>character</u> of the organization--its values--and its top management as the major factor tying employees to it is unique in the study group.

Other factors, such as the chance to grow within one's job or advance beyond it, were mentioned, but with less frequency and less enthusiasm. The strong personal bond that people see between the bank and themselves is more profound. It corresponds closely to the presence of "superordinate values" that Peters and Waterman (<u>In Search of Excellence</u>) believe to be central to organizational success.

The major dissatisfaction voiced pertained mainly to the issue of communications discussed above. There exists a belief that this managerial philosophy of limiting information flow is unnecessary, and perhaps even counter-productive in today's environment. It is seen as an unfortunate aspect of the degree of top management's control, and one that could be changed with no detrimental effects.

Despite the strong affiliational link between the firm and its middle managers, Middle Bank respondents were most likely to mention that they were not paid sufficiently well.

C. Perceived Keys to Success and Movement

The rate of movement was a less salient issue at Middle Bank than at the other participant organizations. This lower salience is probably due to the nature of advancement within the bank. Many individuals explained that they had moved upward by expanding their responsibilities, e.g., by enlarging their customer base or by increasing their lending authority. Hence, advancement here does not necessarily entail assuming a new position, just a change in level of responsibility and title.

The evolving "amorphous nature" of these bank jobs also fostered several attitudes that were unique to Middle Bank. Middle managers, on average, estimated that the optimal job tenure should be between 3 and 5 years, which was one-third longer than middle managers in the other five sites. In line with this viewpoint, the officers anticipated longer job tenures, typically at least three years and sometimes as long as fifteen. Subordinates commented that, "As long as the job is challenging, I can't see changing it." "There is no stigma to staying in your job forever." One boss claimed, "moving people through the organization is not important because employees don't need to 'go anywhere'."

While middle managers enjoy the ability to "move" within jobs, over 40% thought that there should be more transfers across department and divisional lines. One of the consequences of this restricted movement is the self-contained transfer and promotion systems within each department. Many middle managers complained that there was no job posting for officials, so it was quite difficult to learn about job opportunities in other areas of the bank. Even if such a formal mechanism existed, however, most middle managers believed that "cross fertilization" would not occur unless upper management made a conscious effort in this regard. Due to the substantial personnel and productivity costs associated with retraining officers, no individual division would voluntarily assume those costs.

There also was general consensus that the employee had to be self-sufficient to initiate his own job movement. In addition, middle managers considered their boss as a critical link in the process. Depending on their department, they varied in the extent to which they saw his role as benevolent and supportive.

Approximately one-third of the middle managers interviewed expressed the view that bosses "cared for their own," that they looked out for their subordinates' development and movement. Another third, while not imputing negative motives to their boss, were uncomfortable with the top-down, often secretive approach to job mobility. They complained that decisions could be made about their movement without their ever being told, since superiors typically first express their interest in an individual to his boss. Therefore, if a boss does not want his subordinate to change positions, that subordinate may never know about that job opportunity. Even if the subordinate applies for another position within Middle Bank, subordinates believe that the boss has the right to refuse to let him go. Another third of those interviewed expressed stronger opinions about Middle Bank's inertia regarding desirable job movement and their boss's role as a major inhibitor of any job change. They stated that there was no mobility "unless you forced the issue." Several managers reported that they received their current assignments only after threatening to leave or actually quitting.

In terms of mobility out of the company, the responses of Middle Bank managers concerning various organizational signals did not differ significantly from the overall response with respect to the corporate advancement goals.

In the case of the signals relating primarily to job security, however, there were three important deviations from the general findings. When presented with the public, positive signal which centered around acquisition of and merger with another, smaller company, the Middle Bank managers were the only ones to rate this event as negative. However, this signal did not result in increased intentions to leave the company, nor to search for alternative jobs. This reaction is probably directly attributable to the current merger going on between Middle Bank and Industrial Bank. Although many seem to view the merger cautiously (and therefore "rate" it in their heads as negative), the actual implementation of the merger turns out to be less threatening than anticipated (therefore, there is no effect on actually searching or leaving in the near future).

Another difference in the way in which Middle Bank managers perceived the signals appeared with respect to the public, negative signal. This signal drew a more positive perceived effect on internal position, reputation and visibility from Middle Bank than from any of the other participating companies. As this signal described a sudden massive layoff situation in the bank, it is surprising that the reaction was positive. However, by the outcome of a similar event which had occurred at Middle Bank recently (within two years), this perception can be explained. For those individuals who experienced and survived the real layoff, they had found that it opened up opportunity for those who remained with the bank. Therefore, the perception of this signal was that it could work to one's advantage if one was not among those laid off; thus, they, unlike managers from other organizations, intended to stay.

The third area in which the Middle Bank perceptions differed from the general findings was in the case of the private, negative signal. Here, since the manager's department was about to be phased out of existence, the general reaction was negative and had a high associated probability of leaving in the next year's time. This behavior is likely due to the fact that many people in the bank have a functional specialty (e.g., systems, ATM, etc.) and so would find it more difficult to switch specialties in the same company than to switch companies and retain specialty. Also as Middle Bank is a relatively small bank, the opportunity for moving around between different specialty areas is more limited than it might be at a very large bank.

III. Summary

The information we obtained from the different sources accessed was quite consistent with respect to the central issues of planning and goal-setting, mobility and integration, and decisions to stay with or leave the organization. Three themes recurred throughout and unify the findings of the three studies: the top-down manner of doing things at Middle Bank, the centrality of top management in all facets of the organization's operations, and the conservatism and stability that are attributed to these managers, and to the institution, by middle managers.

Middle Bank is marked by a definite sense of how things are done; actions are initiated and directed by top management. Planning and goal-setting, information flow, and promotional and job development activities are all performed in a manner that allows top management to maintain its clear control over the functions of the organization. More so than in most of the organizations included in the study, the middle managers at Middle Bank are purely implementers. They view this as their proper role, and generally have few complaints about the functioning of this system.

The key decisions in the planning and resource allocation system are all seen as being made at the very top of the bank. All information is filtered down according to top management's "need to know" criterion. This appeared as a crucial feature of both the planning and the promotional systems. In the former, the overall view of the strategic plan is limited to top management, and only pieces are disseminated through the planning process, which essentially serves a communication role at lower levels--informing middle managers of their goals. The promotional system was arranged so that a manager's superior could approve a job move prior to the manager being informed.

Central to the smooth operation of this structure is the legitimacy and respect accorded senior management by middle managers at the bank. There was unanimous praise for the acumen with which the bank was run. Relationships at Middle Bank are characterized by a distinct sense of propriety and place. Senior management is perceived as having all of the requisite qualities for directing the organization. Foremost among these are the moral and ethical values that distinguish the bank for its employees.

High on the list of values were basic conservatism and respect for stability. These were seen in the business decisions made (many respondents proudly stated that the difficulties that another bank had encountered could never happen to Middle Bank), the manner in which one could grow in a job despite the lack of rapid promotional opportunities, and the respect with which employees were treated. Although some long-time employees stated that the paternalism of the bank was not as powerful as it once was, it is still the defining element of the bond between Middle Bank and its staff.

LEISURE PRODUCTS COMPANY

I. Environmental and Structural Features

A. Introduction to the Organization

Leisure Products, Inc. is a corporation which produces and markets consumer products and provides discretionary services. The corporation is active in five distinct product/service markets, both in the U.S. and overseas. Its divisional structure centers around five major divisions which are further separated into 2 subdivisions: domestic and international. There are a total of ten distinct business units within this corporation. Because most of these business units are managed as free standing entities and several were acquired as separate firms, they are routinely referred to as "companies" within the organization.

Although several of the divisions are related in terms of type of product sold and target market, there is little need for integration between divisions. However, the business units within a given division often represent consecutive or complementary stages in producing the same product and are, therefore, more fully integrated. Throughout the organization, the driving force behind the businesses is an aggressive marketing strategy supported by a strong sales force.

The Leisure Products Company (LPC) is the focal business unit in this study. It is one of the two principal businesses of Leisure Products Inc., serving the national part of the market for a distinctive consumer product through both manufacturing and sales. This company has revenues of two billion dollars and employs over 11,000 people. Approximately 85 percent of those employees work in one group within LPC, and a significant percentage of that majority are involved in sales, marketing and manufacturing.

An understanding of the manner in which the product is created and moves through the production and distribution chain to the consumer is important for an understanding of this company. The key product ingredient is manufactured by LPC and sold to a geographically dispersed network of final processing, packaging and marketing units. Some parts of this network are company owned, some are franchises, and others sell directly to consumers as part of a broader package of related services. A critical step in this process lies with the packaging of the final product. The actual product is quite inexpensive to manufacture and process, while the packaging of the item is essential for its sale and is one of the most costly parts of the whole operation. The franchises constitute a network of independent operators which run processing facilities and also package, market and distribute the product. LPC provides programs to assist these licensed packaging franchises in servicing markets, expanding operations and improving production methods and facilities. There are over 300 of these franchises in the U.S.

Within the corporation, LPC's position is essentially one of reaping profits thorugh an aggressive marketing approach and tight cost controls. The emphasis is mainly on marketing and sales, as compared to other divisions of Leisure Products, Inc. where, for example, the emphasis is more geared toward manufacturing and service. Although focused heavily on maintaining market share and maintaining or increasing profits, LPC occasionally receives investment funds from the corporation for the development of new products, improvement of the manufacturing process, or expansion of marketing or sales resources. However, the net flow of funds is from LPC to the corporate level.

In relation to the entire corporation, the LPC is one of two major divisions. It is the group which produces the set of products for which the corporation is primarily known and on which it has built its reputation. It is also the divison which brings in the greatest revenues to the corporation, because it is a relatively low cost operation with a large and stable market. Although many of the divisions of the corporation are among the top firm in their respective industries, the Leisure Products Company has been one of its industry's leading manufacturers for several years. Depending on market segment, LPC's products are always in one of the top two positions, and its constant push for supremacy in all areas is expected to continue into the future.

B. Current Industry Considerations

The Leisure Products Company is a prominent force in a highly competitive consumer products market centered around leisure time activities. The industry is a maturing one. Changes in market share occur gradually over time and the leaders are firms which can market their products most effectively while keeping production costs low. The bulk of the costs in this industry are associated with the packaging and distribution of the product rather than the actual production of the base product. When consumers buy this product, they are spending a small portion of their discretionary income. It is often an impulse purchase, so that strong marketing and advertising approaches are critical.

LPC holds the number two position in the industry currently, although the industry leader and LPC alternate positions in specific segments. A majority of the market is captured by the leader and LPC together, indicating a fairly high degree of seller concentration in this industry.

Growth for this industry is predicted to be slow over the next decade, approximately three to four percent per year. A critical factor for future growth for the industry centers around major changes currently taking place in two segments of the overall market. Due to technological advancements, the products in the first segment can now be produced at a significantly lower cost. Firms already involved in this segment are competing fiercely for sales as one of the few ways to increase their margins. Most uninvolved firms are quickly shifting to enter this segment, which is currently growing at nine percent per year. There is expected to be much increased competition among firms within this particular segment as well as possible cannibalization of products within firms. The second segment is represented by a product modification in response to changing customer demands.

Seasonality plays a moderate role in this industry at the current time, although it has become less important over the years. The main peak season is summer, followed closely by spring and fall, while winter would be considered off-peak for this industry.

In terms of the price/cost structure of the industry, both unit cost and unit price are relatively low. High sales volume is critical to achieving a profit. A discounting trend was started a few years ago by the industry leader which forced all competitors to follow suit, and which now is seriously hurting smaller, lower-volume competitors.

Private-label products have outpaced major ones in terms of recent growth reflecting a growing price consciousness throughout the market. In addition, current legislation may significantly impact manufacturing and distribution costs, in addition to requiring additional asset investment.

C. Formal Structure

The organization of the Leisure Products Company is geographically decentralized in that the company's products are manufactured and distributed through the chain of packaging franchises mentioned earlier. To contain the negative side effects of this diffusion, there are formal procedures which serve to coordinate the operations of various parts of the company, as well as standardized training and socialization mechanisms to maintain company standards.

The marketing function is highly centralized and serves as a focal point for the company. LPC takes an active role in providing programs to the packagers in order to ensure that they are aware of and are taking advantage of the most effective production methods available as well as providing appropriate market services (as defined by LPC's top management) and expanding operations where possible. The company also supports the advertising, distributing and marketing of the products in various ways such as offering special merchandising and promotional programs and through the specialized training of personnel. In terms of the degree of specialization within the company, the major functional areas are sales, marketing, manufacturing, research and technical services, finance and personnel.

The distribution system in this industry largely depends on the distribution groups affiliated with each company. It is through these groups that the product actually gets to the retail distributors and finally to the consumer, so they play a very critical role in this industry. There are only a few steps in the distribution process as the franchises distribute the product to the various outlets of the market place. Multiple channels exist for distribution only at the very end of the chain, so that consumers can buy this product at several different types of outlets. One recent trend has been a shift in demand and popularity from one type of outlet to another. This newly-developing type of outlet currently accounts for distribution of 15 percent of this industry and is expected to increase substantially, providing another potential mechanism for increasing volume. Firms which have not been active in using this more popular avenue of distribution may experience lost sales due to this trend. As LPC has an extensive franchise network and is active in utilizing all of the outlet channels, it is in a favorable position for future distribution of its product.

Because LPC is decentralized, the planning process is particularly important. It can be described as semi-participative and works primarily through two channels. Corporate goals are passed down from the top of the organization in the form of departmental targets and the meeting of these targets is measured through critical financial indicators. The four indicators upon which performance is evaluated are (1) volume, (2) net operating profit after tax (NOPAT), (3) ROA employed and (4) market share. There is a tremendous internal pressure to meet the goals as established by corporate headquarters for the departments, as well as to meet the departmental objectives that are passed along to individual groups. If a manager does not meet his goals one year, it is almost certain that he will meet them the following year based on the understanding that if he does not, he could lose his job. Also, bonus compensation is tied to how closely targets are met.

The second channel through which the planning process moves is the Human Resources network in the corporation. The rewards and lack of rewards in this area are much more subjective than in the financial arena. Here, too, the process is different in that it rolls up from the bottom of the organization to the top rather than top to bottom. What is referred to as the Human Resource Plan is developed annually through personal evaluations of individuals by all managers who supervise at least one exempt employee. This plan is passed up along levels in terms of information concerning personnel needs for the entire organization. Corporate management then responds by sending strategies back to the divisions for managing their human resource talent. If the requirements of these strategies are not met, both personnel and line operating managers pay for the failure. Bonuses are perceived to drop in proportion to the unmet goals. The same pressure to meet financial targets exists here, although these targets are derived through more of an interactive procedure than for the business targets. Regardless of the pressure, however, this atmosphere has been described as stimulating and highly motivating.

D. Human Resource Practices

As human resource planning is one of the two critical components of strategic planning for this firm, personnel factors are certainly included in the process. However, as mentioned previously, this inclusion is based heavily on the perspective that by meeting critical personnel needs for the company, employee development will occur as a by-product. Although described by employees as a company offering great opportunity, it is not seen as a particularly humanistic organization.

Each employee with an exempt status in the organization is formally evaluated by his or her supervisor on an annual basis. The evaluation takes the form of a performance rating for current work performed as well as trend of performance over time. Short-term, long-term, and replacement planning are done for individuals as well as individual positions.

The actual evaluation procedure is carried out by comparing individual skills to a set of characteristics which have been determined to contribute to a person's success in this company. The overall objectives are to clarify the relative mix of strengths and shortcomings in the work unit, and to use as a basis for training plans tailored to the needs of the individual. The skills used as the basis for comparison include such factors as stress tolerance, being a team player, toughness, decisiveness and having good judgment (or street sense) with a results orientation. Evaluation procedures and performance criteria are standard across the organization. However, individuals designated as "corporate assets" are treated differently in terms of grooming assignments than are other managers. Corporate assets are more frequently transferred across group and divisional lines in order for them to gain the broad experience and knowledge necessary for corporate responsibility.

All divisions within Leisure Products Inc. are run under very high performance standards, a creative and aggressive marketing strategy and assumed integrity of its products, people and business tactics. The major image of the organization is one of a "winner," and this is well supported by the fact that many of its products are brand leaders. This winner idea extends beyond just beating out the competition in the marketplace--managers within the firm are constantly pitted against one another in terms of achieving goals and making targets. What has been called a "creative tension" is present in the corporate environment, and for those managers who do not perform well under pressure, their jobs may be reorganized out from under them. Those who prove that they do measure up to the tough standards are moved constantly across divisions so that they are exposed to all aspects of the business. It is not unusual for a junior manager to change job every 12 to 18 months. Human resources planning is seen as a very important part of every manager's responsibilities to the firm. Not only does the organization have a strong commitment to planning its resources for the future, but it also is very results-oriented. "Game plans" are quickly translated into "action plans," where the required actions are identified as to type and importance. Potential types of action include counselling strategies, recruiting needs, succession planning, compensation management, strategic retention, and individual training and development.

In terms of its formal Human Resource Program, specific elements include (1) compensation based on how well performance achieves initial individual objectives, (2) flexible benefits packages where employees have a choice among various medical and insurance coverages, (3) formal communications mechanisms including annual surveys of employee perceptions, and (4) a "people planning" system which develops talent internally through skills training, personal and management development, provision of challenging assignments and long-term succession planning.

This "people planning" system centers around what is called the Human Resources Plan (HRP here). This plan is actually a three to four month process during which employee evaluations are given and overall needs are assessed for present and future personnel requirements. The HRP is a structured and standardized way for managers to evaluate their staffs' strengths, depths and potential range. Each manager who supervises at least one exempt employee participates in the HRP. The series of steps followed in an organization-wide execution of this plan include:

-- Completion of all forms by managers, review with supervisor and a representative from Personnel

-- Selected managers and directors prepare HRP presentations

-- Field HRP presentations given at selected locations (Oct.-Dec.)

-- Group presentations given at divisional headquarters (Dec.)

-- Divisional Presidents review presentations (Dec.-Jan.)

-- Corporate President reviews presentations (Feb.)

Through the various presentations given, different levels of information dovetail as the resources information flows upward. Major topics covered in these presentations are (1) the past year, (2) organizational structures, (3) people profiles, and (4) summary/plans. The plans outlined at the end of this process focus on the impact of business issues on the human resource plan and managing the promotional mix.

Organizational adjustments for this firm can best be discussed in terms of future goals for the Human Resources Planning group, which include expansion of managerial perspectives and job expectations. Currently managers have a very short term focus--the common perception is that if one does not get promoted every 15 months or so, it is an indication that performance is poor. Often, in the case of one job being retained for two years or more by the same person, he or she should be (or soon will be) out looking for another job. As the industry is one of slow growth, managerial expectations need to be expanded to an attitude of more "normal change." The personnel function needs to be concerned with how best to manage the potential for turnover, as much of the staff is bright, young and aggressive, and has been selected to fit in with the competitive culture. This is particularly true for the fairly recent influx of new MBAs.

II. Perceptions of Key Planning and Human Resource Practices

In the previous sections were discussed the strategic and human resource issues and practices as they are officially stated and documented. However, one of the components of strategic management is the consistency between strategic direction, organizational policies, and the perceptions of those policies. In the following sections, we describe middle manager's perceptions of organizational structures and processes tied to organizational effectiveness and the retention of personnel. Specifically, we focus on their perceptions of planning and goal setting, motivation and incentives, and job mobility within and out of the firm. Serious gaps and inconsistencies between formal elements and perceptions of those elements are noted when they occur.

A. Perceptions of Planning and Goal Setting

One of the findings of this analysis is that individuals at LPC were more likely than those in any of the other organizations to respond that they did not know how their goals were set. While this was a minority (21%) of respondents, the finding does correspond with the general tenor of responses. In general, middle managers see the planning and goal-setting system as a top-down, relatively inflexible system which provides little opportunity for input on their part. As one respondent stated when asked how he found out what his goals were: "you're given a list and told to do it."

This seems to be especially the case in the core functions of sales and marketing. In the former, there exists a strong sense that these goals emanate from the top of the corporation and, in one manager's mixed metaphor: "sales numbers are steeled in cement." The nature of the marketing function in the firm requires it to be highly reactive and program-oriented; many respondents there learned about their goals when supervisors and higher officials had decided what programs were to be introduced in response to perceived opportunities.

Individuals in other functions displayed more variability in their responses. Some felt that they possessed some ability to negotiate their goals, while others believed the goals assigned them to be fixed by the time they "filter down"--a term several respondents used--to their level.

Middle managers also found it difficult to discern what direction the company was pursuing at a given time. Changes in direction were believed to occur very quickly with no explanation and no hint of emphasis. Conflicting objectives coming down from the corporate and company levels were seen to exacerbate the problems of inter-functional conflicts.

It should be noted that, while goals are seen as being given from the top with little individual participation, many middle managers believed that they were given greater latitude in how they achieve these goals. And, as will be discussed below, achieving one's goals is a central value at the Leisure Products Company.

The resource allocation system essentially mirrors the planning system in process, but it is seen as even more top-down. There is a strong feeling of resource constraint as a result of the past few years' cost cutting. Many believe resource constraints are getting more severe, and that pressure to perform is increasing even as resource support--particularly people--is being reduced. As one manager stated, the message that top management is sending to middle management is: "you can't allocate, you can't prioritize, you just have to get it done."

The issue of information flow is an important one at LPC. Many middle managers we spoke with felt that there was virtually no formalized information flow within the organization. It was sometimes possible to get information about what was happening in one's own function, but information about overall business direction or the operations of another function was very difficult to obtain.

One's own manager, in general, was not seen as the solution to this problem. Several respondents noted that it is generally difficult to get access to or support or information from one's manager. All believed that this was due to the tremendous pressures placed on the managers; as one said: "he's too busy dodging his own bullets."

B. Perception of Motivation and Incentives

The functional organizational structure elicited a great deal of response in the interviews. A few respondents spoke of the positive ramifications of such a structure: it creates a large number of opportunities, it provides a definable area of responsibility, and it motivates everybody to compete with those in other functions to ensure that your priorities are addressed.

The vast majority of respondents, though, indicated that the functional organization was a difficult structure within which to work. Their sense was that it hampered individual and unit effectiveness through several mechanisms. First, it was perceived as making the coordination and communications always difficult in large organizations, almost impossible. Respondents spoke of the impossibility of meshing the conflicting objectives of different functions, of the "constant fighting" and "combative atmosphere" that results. It was often viewed as a source of power struggles and political power plays. One stated that, rather than encouraging the solution of problems, the functional organization motivates you to "just get the monkey off <u>your</u> back" by throwing the problem to another function.

Many also spoke of communication difficulties that have appeared in the system. Respondents in virtually all functions had stories to tell of other functions being unable or unwilling to provide them with needed support or information. There is a pervasive feeling that, at least partially due to the functional structure, "we're all in the dark" about what the business is trying to achieve.

The feeling is strong among the middle managers that one of the reasons that a functional organization is used is that it has these impacts. This structure is seen as fostering the competition and aggressiveness that are seen as central LPC values. There is, on the part of several respondents, a distinct feeling that top management is quite willing to live with these consequences and, indeed encourages them, to aid in the constant push for results. Functional organization, in short, is seen as being highly consistent with LPC's culture and aggressive, management style.

Middle managers' perceptions of what they liked about LPC clustered around the pace of the organization, the challenge of working for an achievement-oriented firm that pays for performance, the salary they received and the opportunity to work with a highly motivated group of individuals who, in the words of one respondent, "fit my self-image--young, bright."

Respondents appreciate the chance to work in an environment where they get the chance to deal with a rapidly changing marketplace in an organization with a strong presence in that market.

A major motivator reported is the challenge of working--and staying--at LPC. The firm is seen as giving people a lot of responsibility relatively quickly and letting them "sink or swim" on their own. If one survives, one knows one has done well, and the firm will reward accordingly. The reverse holds--people believe that there are no second chances at LPC.

Perhaps the most common statement made in the interviews was that LPC was an embodiment of the "throw away mentality," that "people here are seen as eminently expendable," as "pawns on the chessboard, to be used and replaced." People saw the firm as concerned with results, regardless of cost or consequence for employees.

There is an overwhelming perception that senior management consciously "pits competent young people against each other to see who survives" and disposes of the rest. There is a tremendous emphasis on the short term, leading people to believe that "you're only as good as your last decision, so you begin to get afraid of making decisions." Since "failure is a big word" at LPC, most of the middle managers we spoke to see an important conflict between management's expressed desire for risk taking and its treatment of failed risk or error. There is no sense of job security at LPC, "you do a good job this week so you'll have a job next week." People see no rationale for taking risks, because the downside cost is perceived as being dismissal.

This atmosphere is reflected in the metaphors people used to answer questions. The frequency of war-related metaphors is high ("You're constantly dodging the bullets...") as is the term "survival of the fittest." Many characterized the management style as "management by conflict," "management by fear," or "management by intimidation." Perhaps the attitude toward the firm is best summarized by the manager who stated that "it's like senior management has this machine gun, and you just see how long it takes them to get you."

Many of the other difficulties reported--the conflicts in the functional organization, the need to constantly reeducate peers and managers new to their jobs, the lack of managerial support, and the lack of training--were seen as at peace with the warlike culture. Rather consistent with this observation respondents overwhelmingly saw the competitive environment at LPC as a conscious management policy.

C. Perceived Keys to Success and Movement

For the Leisure Products Company's middle managers, the most salient feature of the transfer and promotion system was the rate of movement from job to job. Rather than focusing on issues such as opportunities, merit, and evolving job responsibilities, these middle managers saw performance as irrelevant to movement; dismissals were frequently seen as arbitrary. LPC managers believed that image was critical, oftentimes more so than skills. Those interviewed used phrases like "good personal package" to describe what was required to succeed and to move.

Managers, particularly those under 32 years old, generally treated rapid movement as the norm rather than the exception. As one boss complained, "Promotions should be based on merit and not on the fact that a certain number of months have passed. Of course, some jobs are propellatory in nature, but the one year time frame should not be as rigidly adhered to as it is here." Nonetheless, expectations of fast movement are set quickly. It was not uncommon for a boss to tell a subordinate that, if he is a good performer, he should have a new job within 12 months. Or the boss might inform the subordinate that, if he still is in the same assignment after two years something has seriously gone awry and he should begin to look for employment elsewhere. These expectations are then reinforced by constant transfers and promotions, particularly at the beginning of one's career. Almost all of the young managers interviewed had previously changed jobs every 6 to 15 months. Professional and personal value was measured against rate. "Anyone who is anyone moves" was a typical saying. The LPC culture is to keep moving rather than developing in the position.

Over 65 percent of the middle managers interviewed felt that once they had learned a job, it was time to move on. Forty-five percent of the middle managers interviewed considered the optimal job tenure less than 1.5 years, enough time to basically see one annual cycle through. It should be noted that from the organizational perspective, the individual can make his greatest contributions after mastery has been achieved.

LPC managers benefit from and pay the cost of this high paced movement. The transfer and promotion system was frequently described as "up or out." LPC was viewed as unable to accommodate people who were not on the fast track. The old philosophy was that if a person was performing well, move him up. If that person didn't want to move, then move him out because he was a "developmental block."

The rate of transfer at LPC has recently slowed down, in line with its slowed growth. The company is now faced with the issues of managing tenure expectations and of altering the meanings attached to short and long job tenures. Bosses observed that middle managers recruited under the fast track system are having trouble adapting to the slower pace. For example, one individual exasperatingly described his subordinates as "preoccupied with their movement." After the one year mark was reached, they tended to react with great disappointment to each passing week still on the same job.

In terms of the way that LPC managers thought about mobility out of the company, there were several noticeable differences in the way that they perceived and interpreted organizational signals. In general, they perceived signals as more negative than any of the other companies' managers. For example, in the case of both the private, positive signal and the private, negative signal (both relevant to corporate ladder advancement), these managers evaluated the events as more negative, and reported themselves as more likely to leave than did other groups of managers. Similarly for the public, negative and private, negative signals (both relevant to job security), there was a generally more negative interpretation. Even positive signals were perceived more negatively than at other sites. For example, in the case of the public, positive signal related to corporate ladder advancement, the overall perception across companies was that it would have a fairly high positive effect on marketability to the external job market. Although the evaluation of this effect was positive also, it was much less positive than the rating given it by other managers.

Another difference that occurred between the LPC responses and those given by the other sites' managers was that public signals always increased the managers' intentions to stay with the company at LPC, regardless of whether they were perceived as positive or negative by the managers. This was not true of the responses given by other companies, where a negative perception was usually accompanied by a decreased intent to stay.

Finally, the LPC sample was found to have an extreme reaction to one of the signals in particular, that of a private, negative signal relevant to the goal of maintaining job security. For this signal, the responses by LPC managers indicated a very high negative rating, a high intent to leave the company, a high probability of searching for another job in the market (greater than 75% chance), and an almost certain probability of leaving the company within the next year (greater than 90% chance). Further, all of these effects were slightly more pronounced at the headquarters than in the field. The reason for this response probably rests with LPC's functional structure. Since there is so much competition among the managers across various functional areas, it is difficult to move easily from one function to the next. Therefore, in reaction to the signal in which a department is phased out, it is fairly realistic that movement to a different company would be perceived as easier than movement to a different functional area within the company.

III. Summary

In conclusion, the findings that came out of each of the three individual studies carried out with managers of the Leisure Products Company were highly consistent with one another and centered around three main factors. These factors represent three highly common perceptions among middle managers concerning (1) the formal, functional structure of the firm, (2) the planning and goal-setting process within the company, and (3) the culture which permeates the social atmosphere of the organization. Each factor is briefly summarized below.

1. Organizational Structure as Highly Functional

   The formal organizational structure of the company is highly functionalized into the areas of marketing, sales, manufacturing, etc. These functions do not become integrated until a high level of management is reached within the company (i.e., above the middle management level). This arrangement is designed to create a large number of opportunities for managers and to be motivating in that various areas must compete for resources. However, for many of the middle managers interviewed, this setup is perceived as detrimental and generally negative by the middle managers. They perceive that top management has designed the company to be run in this way in order to foster a highly competitive atmosphere, as evidenced by the perception of no communication nor sharing of resources among functions. Therefore, their effectiveness in achieving goals is seriously hampered.

2. Top Management's Planning and Goal Setting Practices

   The second factor which demonstrated common perceptions by the middle managers across the three studies is concerned with how the planning process works within the company and how goals are set and accomplished. The formal procedure is one of "top-down" planning; top management strongly controls the planning process and, once completed, information down to the lower levels of managers, especially in the case of the core functions in the company (marketing and sales). Therefore, the managers feel that they have little if any role in this process other than to implement the plans and goals as laid out for them. Even this is difficult due to the common perception that information is not communicated directly to these implementors, but rather is left to "filter down" to them from top levels.

3. The "Challenge" of Staying at LPC

Although the corporate culture at LPC has been described as "Marine boot camp," and "dodging the bullets" is a fact of everyday life there, the general perception is that again, top management has designed the company to be this way to foster competition, and many individuals enjoy the challenge of trying to "hang in there" for a little while longer. This atmosphere obviously appeals to many of the managers, but it does not foster risk-taking behavior. This was apparent in terms of signal perception, as well as in attitudes that surfaced during interviews. Several managers mentioned that the downside risk for failure is so certain and final (i.e., dismissal) that there is virtually no incentive in the company to take any risk at all. However, for those who dare to take a risk and succeed at it, the rewards are high and often provide a ticket upward in the company. Risk is seen as high cost, and potentially high gain.

In summary, Leisure Products has a very strong internal alignment centered around its present top management. The top management of LPC is seen as having intentionally instituted an organizational structure, culture and set of key processes that reflect their own tough, competitive attitudes and values. The highly aggressive strategy pursued in the past has succeeded in catapulting the company into the second position in the industry, and in certain markets, into the leadership position. Provided there are no major upsets in the nature of the industry itself or in terms of competitor behavior, presumably this strategy will continue to win or, at least maintain, market share.

A potential problem may occur if the market changes in such a way as to demand flexibility and adaptability of the participating firms. Because of the high cost associated with risk, flexibility and adaptability may not be LPC's strong suit. In the absence of such industry changes, however, LPC should continue to be an effective industry leader.

SKY TECHNOLOGIES

I. Environmental and Structural Features

A. Introduction to the Organization

The Advanced Technology Corporation (ATC) is one of the largest and most diversified industrial corporations in the country. Its organizational mission, as stated by its CEO, is to be "the most competitive enterprise in the world." This is translated into a desire to be number one or two in every product line it produces and to grow faster than the market. It also strongly emphasizes the need to be at the forefront of technological innovation.

Sky Technologies, a subsidiary of ATC, is a collection of businesses which focus on the aerospace industry. Sky Tech's products are mainly subsystems (parts of major systems developed by other companies) and therefore involve convincing the Government contractor or prime system supplier to split major contracts into sub-elements.

In addition, Sky Tech's work projects involve heavy up-front design and development, and tend to be long term (10-20 years). As a result, there is high confidence in the level of sales over the next five years because of the long term nature of the programs. However, because most sales are U.S. Defense contracts and only desired by the government, the end of a program can result in layoffs. To minimize such effects, the programs are kept diverse in terms of type of program and the branch of Government they supply. No one program accounts for more than 6% of the business and most product lines occupy unique "niche" positions in a given market. Sky Tech's efforts have resulted in a market leader position with $2 billion in annual sales by a workforce of over 25,000 people.

B. Current Industry Considerations

The aerospace industry is made up of a number of large, highly technically-oriented companies or corporate divisions which are primarily oriented toward providing aircraft, electronic equipment, and space systems. The market is an oligopsony. The major customer is the U.S. government, which puts forward contracts for which aerospace companies must compete and fulfill. There are also a few private customers in the market.

Because most of the competitors in this industry have developed or have access to the same high-level technologies, a key factor that differentiates among the producers is cost. The company that can produce the desired product for the lowest cost usually wins the business. Unfortunately, this constrains profitability for these firms. Since many contracts are cost-based rather than value-based, it is difficult to get leverage from volume. The fact that this type of business is a long cycle business and the companies must put resources into maintaining technical strength also serve to limit profitability. Government contracts have, over time, shifted from costs plus to fixed price, putting additional pressure on costs and profits.

Within this industry, Sky Technologies is in a relatively good competitive position. They have a solid relationship with the military community, and have historically held the number one position in dealings with one of the most important agencies. Based on recent congressional actions, the defense market is projected to grow at 4-5% per year.

Finally, one interesting component of this industry is that other companies that are competitors on one project are often partners, suppliers or customers on others. Although the competition is still keen within the aerospace industry, there is also interdependence among the participating companies.

C. Formal Structure

Over the last forty years, the Advanced Technology Corporation has gone through several structural changes. During the 1970's, the firm developed strategic business units (SBU) in an effort to identify the unique, stand-alone businesses within the corporation and focus resources on the strategic requirements of the diverse businesses. Sky Technologies is an example of an SBU. Along with this structure came a new style of management which stresses the strategic positioning of a business and the selective allocation of key resources for the competitive advantage of that business.

The informational demands placed on Sky Technologies is clearly knowledge about state-of-the-art technology. Since the company must compete in a high-knowledge-based environment, it must not only keep abreast of all new technological developments, but must also work at breaking through the forefront of knowledge in at least some areas. So, technical information is key for survival. However, Sky Tech is also a business, so it requires some business information as well.

To accommodate the various technical and business needs the structure of the Aerospace Business Group follows a matrix organization. There is a heavy emphasis on program management; for example, an engineer would be absorbed into a program only as long as the program dictates. He would then be the responsibility of a functional manager. There are both program managers and functional managers; the program managers have the responsibility for supervising projects, including staffing, while the functional managers oversee the pool of individuals in their particular function, supervise training needs and assign their people to various projects as needed. Although program managers often develop follow-up programs from their projects, they are not involved in the marketing of new programs. The business development group handles this aspect of the business as well as advance program marketing.

Strategic management encompasses planning and management responsibilities at every managerial level. The high level planning is done at the SBU level (for worldwide business), whereas lower level objectives and strategies are integrated into the overall planning process. All management levels are focused on strengthening key internal resources and developing programs which are unique to the scope of their business level.

Planning for the SBU is carried out at two points during the year. In the first quarter, the strategic plans are developed. Later in the year, a "five-year" look at the business is undertaken although it focuses primarily on the next two years. This planning is done by the top levels of management who determine a set of targets for each of the Divisions. In the case of the functional areas, some shorter-term (e.g., one year) goals are set at lower levels. While there is some iteration between top level targets and lower level goals, the plans are actually finalized by the Division General Manager.

For the program-oriented side of the business, there does not seem to be much planning done, as the future years' goals and plans are determined totally by the terms of the contracts won. Only general goals, such as becoming number one in every aspect of the business, are set up for the program managers.

Hence, within Sky Tech, the business information is left primarily to the levels of management to collect and utilize for setting long-range plans. All other levels concentrate on the technical information relevant to their business areas.

D. Human Resource Policies

Sky Technologies' Human Resource policies and practices are a function of both the nature of its work force and ATC's size and highly developed bureaucratic system. Approximately eighty percent of Sky Tech's personnel and salaried technical staff, with a high proportion of individuals with Ph.D.s and other advanced degrees. Many of these people join the company as engineers and move later into functional manager positions. Although both age and tenure vary over a wide range, there is a large proportion of people who are in the mid-forty age range and have been with ATC for at least fifteen years. The managers in particular lean toward being "long-termers" within the ATC community.

Substantial resources are committed to training. There are aggressive advanced technical training programs, which are used as a vehicle to stay current, rather than to catch up in terms of technical expertise. On the other hand, managerial skill training is minimal. In terms of management development, there are two factors: on the job training and formal training. The experience an individual receives has been largely determined by the opportunities he is given in a series of positions. With formal training, a course is selected from one of a number of catalogs, such at ATC's management development institute. There are efforts to bring more training in house to provide greater focus.

The philosophy of the compensation plan is to be consistent with but not ahead of average market salary levels. The challenge is to make high technical starting rates compatible with salary levels for existing staff. Salary levels are based corporate wide on comparable rates in the market place which are assessed through external surveys (e.g., Hay, Conference Board). There is an established salary range at each of the 25 levels; position within that range is based on merit.

In terms of the formal systems set up within Sky Technologies to plan, monitor, evaluate and reward managerial performance, the most important system in place is the Executive Manpower Staff Review system. In this system exempt employees are reviewed once a year by their superiors concerning their backgrounds, self-assessment, and how well plans set the year before were carried out. This effort is distinct from the normal performance appraisal system and is used to identify "stars" or high potential managers early on in their careers. This assessment procedure goes up the line of managers within the business group and culminates at the SBU level. The individuals who have been identified as "stars" receive special consideration. They are assigned to a variety of positions across the company in order to allow them to become familiar with all aspects of the business.

II. Perceptions of Key Planning and Human Resource Practices

In the previous sections we discussed the strategic and human resource issues and practices as they are officially stated and documented. However, one of the components of strategic management is the consistency between strategic direction, organizational policies, and the perceptions of those policies. In the following sections, we describe middle manager's perceptions of organizational structures and processes tied to organizational effectiveness and the retention of planning and goal setting, motivation and incentives, and job mobility within and out of the firm. Serious gaps and inconsistencies between formal elements and perceptions of those elements are noted when they occur.

A. Perceptions of Planning and Goal Setting

Determining the perceptions of planning and goal-setting systems was more difficult at Sky Technologies than at any other organization in the study due to the heterogeneity in the patterns of response. What is more, the patterns tended to vary more with an individual's position -- management level, role in the matrix, divisional affiliation, performance rating -- than in the other organizations.

This situation is probably a result of the multiple sources of variation we encountered within the organization. There were two sites; within each site we spoke with representatives from both sides of the matrix: functional managers and program managers. In addition, middle managers occupied three distinct hierarchical levels, each of which had different perceptions of the planning process's operation and effectiveness.

The key distinction in perspectives on the planning system revolves around the program/function split that is inherent in the matrix organization. Those who work on programs and projects, and the proposals that capture this work, do not really see a planning process. Their goals, tasks, and budgets are mainly determined by the program contract, which contains the relevant description of activities and milestones.

The functional managers split in their assessment of the planning process within which they work. Higher level managers spoke of the essentially interactive nature of the process, describing how top-down targets are merged with bottom-up goals statements to create a plan which is then integrated and approved by the Divisional General Manager and his staff. Lower level managers tend to see the process as top-down. Both distinguished between this planning process and the program driven activities of the functions, which were structured by the program proposal and contracts.

The formal resource allocation system parallels the planning system(s), with program funds apportioned according to proposal budgets and non-program functional budgets acquired through an essentially top-down system. One of the striking aspects of the discussions concerning resource allocation was the consistency with which middle managers prefaced their responses by describing how resource-constrained they were. The degree to which they are actually more limited in resources than their peers in other organizations is not clear. The program or project orientation of most of Sky Technologies's work may explain this difference; in such an environment, resources tend to be demarcated carefully and guarded zealously. This may explain the situation in objective terms, but the pervasiveness of the perception was impressive.

The example most used to illustrate this point, was the frequency with which professional staff were expected to work overtime without pay, as a result of what managers saw as purposeful understaffing. They believed that they had to drive their people unnecessarily hard because the corporation starved them of resources.

B. Perceptions of Motivation and Incentives

The characteristics of Sky Technologies's staff -- the fact that most of them are engineers -- defined the major motivating factors cited by most respondents. These were concerned with the nature and challenge of their work. The most frequent responses to what Sky Technologies did to motivate its staff pertained to salary and the opportunity provided to do the type of work they sought.

Most respondents were motivated by the technical challenges of their work. They believed that working at Sky Technologies gave them the chance to deal with interesting problems in an organization that was now, in light of the new senior management, committed to high technology. The organization allowed them the freedom to work on these problems in a relatively autonomous fashion. The other motivating factor provided by the organization, for many, was salary. Respondents believed that, for the most part, Sky Technologies paid well and offered competitive employee benefits.

The majority of respondents, however, indicated that the organizational motivation was a distinctly secondary one. Several noted that engineers tend to be perfectionists, and they often spoke of their self-motivation as the primary motivation. The more the organization avoided interfering with their work, the happier they claimed to be.

Beyond the issues discussed above, the responses concerning motivation were scattered and lacked consistency. Several managers spoke of the quality of training and managerial development opportunities as motivating factors, while others were equally adamant in asserting that Sky Technologies does not real.y care much about training and developing managers. The former viewpoint was prevalent among those rated as high performers; opinions among the remaining respondents were mixed.

Similarly, some respondents spoke of the advantages of working for such a large organization. These managers applauded the breadth of expertise available within Sky Technologies and the quality of the research facilities. Others believed that, in the words of one: "Sky Technologies is too big and too diverse to be a true Class I organization." Many spoke of the problems of bureaucracy -- too many reports written for no apparent reason and the fact that "trivial things take an Act of Congress...you need 200 signatures."

One of the demotivating points on which there was strong agreement was the generally poor degree of communication found within Sky Technologies. As noted above, one site in particular was perceived as having had terrible communications until the recent change of General Managers. The new GM was seen as having made significant progress, but there is still a belief among middle managers in both sites that there is insufficient information disseminated concerning what the business is trying to do. Most middle managers feel that there is too much isolation in the firm, that there is not enough communication across units and between business management and the lower echelons.

There was a small group of middle managers, generally at the subsection management level, who complained of the unfair position in which individuals of their rank were placed. They noted that individual contributors could be paid for overtime (although many other respondents provided evidence that this was not a common occurrence) while managers above their level could receive incentive bonuses. Neither of these payment schemes was available at their level.

C. Perceived Keys to Success and Movement

Owing perhaps to the technical work focus noted above, middle managers at Sky Technologies were more consistent than those in most of the other organizations studied in ascribing success to performance and hard work. Almost all respondents noted that you had to do good work to succeed; some mentioned that the standards of performance had risen since the change in top management.

Working beyond the normal expectations of one's job was also seen as important. Overtime was seen as a requirement for success by many, and this combined with the feeling of resource constraints, led many to question the underlying rationale. Although it has obvious profit implications, it also has effects on morale.

On balance, the transfer and promotion system was viewed as equitable and as having more pluses than minuses. They considered Sky Technologies an equitable employer which looked for internal candidates first, moved towards removing the bias and subjectivity from the selection process, and did its best to place people whose projects had been discontinued.

Perhaps the most striking difference between Sky Technologies and the other companies surveyed is that discussions of job mobility were couched in terms of a transfer and promotions system. Over 80 percent of those interviewed mentioned formal personnel practices, compared with less than 20 percent of those interviewed at other sites. Moreover, comments about opportunities and mobility were not directed toward any one individual or group of individuals but toward an omnipresent system of information and paperwork. Middle managers had a clear sense that people moved when "it was good for the company." Yet, few attached any negative evaluation to the company's "bigger vote;" in fact, it was frequently described as a sound corporate practice.

Many middle managers stressed that timely movement (i.e., three to four years) was not automatic. The individual had to watch for opportunities, to tell his boss and hiring managers of his interests, to self-nominate. There was no adversary in this process, however. Sky Technologies just could not be expected to look after anyone's personal career (unless he had been identified as a "star").

In line with this pervasive bureaucratic perspective of internal job mobility, criticisms usually concerned a procedure or practice that did not work as well as it could. Most managers focused on job posting and self-nomination. Bosses tended to view these procedures in a favorable light, as a means of broadcasting opportunities and assessing a broad range of candidates. Their subordinates tended to view job posting and self-nomination as good "first tries." Assessment of the efficacy of these procedures' ranged from highly beneficial to valuable for a limited audience (e.g., a type of engineer, a range of grade levels within a geographic area) to a "last resort" that "bordered on farce."

An interesting issue raised by several respondents concerned the necessity of becoming a manager to rise above a certain level, usually subsection management. Many noted that Sky Technologies essentially forces good engineers to become managers if they wish to continue to advance in the organization. This was seen as a source of turnover, since there are, they asserted, many high quality engineers who simply do not want to be managers. Since higher level middle management positions are often used as training positions for high potential candidates, individuals who do not wish to go further -- that is those who want to be engineers rather than managers -- must be cleared out to make room for these candidates. This lack of a dual path therefore leads to the loss of talented engineers.

The greatest criticism of Sky Technologies' practices was its preferential treatment of individuals labeled "high potentials". Several bosses complained that they had difficulty moving their competent staff members because these subordinates were not deemed high potentials. The "star syndrome" was a particularly salient issue with regard to Sky Technologies's developmental activi ies (see below).

Middle managers believed that the corporate philosophy is to develop people to their fullest. The actual training efforts do not often correspond to this ideal. The execution is in large part a resource allocation issue. Consequently, employee development varies widely within the specific ATC unit and within the immediate management chain. In turn, an individual's opinion depends on his understanding of and agreement with management's allocation decisions.

The strongest advocates of Sky Technologies' developmental efforts were managers who had previously worked in other companies. They saw Sky Technologies as "bending over backwards to try to develop people," and they stressed the progress being made in the area of human resources management. The strongest critics of developmental efforts were managers with job tenures of at least five years. They complained that upper management paid little attention to anyone but the "stars," and that more funding should be made available to the "guys in the trenches," "the backbone of the business," the "guys who do the work."

Most managers fell between these two extremes. They recognized the fact that development requires money, whether it be for attending courses or giving someone a new job. Consequently, a boss cannot always develop the people that he should, but "those are the breaks of the game." These "in between" managers felt that the attention and resources should be shifted at least somewhat from the "stars" towards the solid employees, the "lieutenants." They also presented a wider view of Sky Technologies' development efforts: they mentioned structured manpower reviews, tuition reimbursement, and opportunities to do challenging work and to be exposed to a variety of programs.

In terms of movement out of Sky Technologies, there were a few cases where the reactions of managers to the various signals differed from the responses of other companies' managers. From these deviations, it appears that the managers at Sky Technologies react more definitively to negative signals than to positive ones. Perhaps in this type of high-technology environment, positive messages and feedback come mainly through the tasks themselves rather than from supervisors or other people. It also may be that the work itself and not corporate ladder advancement is most salient to the particular set of individuals which participated here. Therefore, positive signals about potential promotions, opportunity, and so forth may not be as important to these people as to managers in the other organizations studied.

In the case of the job-security-related signals, the Sky Technologies managers reacted very strongly to the private, negative signal. Compared to individuals at other organizations, the resulting intentions to leave Sky Technologies and the probabilities of searching and leaving soon were very high. This is not a totally surprising result, however. The signal itself described a setting where the manager's department was being phased out in the near future. Because a relatively large proportion of Sky Technologies' managers stated their primary career goal was one of "continuing to work in my area of expertise," the option to do the preferred type of work at another company simply outweighs the advantages of remaining. Also, unlike many other companies, there is always the possibility of returning to Sky Technologies at some later point in time. Since there is an acceptable option, it may make leaving the company easier.

III. Summary

Three major recurring themes were reflected in the interviews at Sky Technologies They focused around (1) the intense interest in and concentration on the technological aspects of the business; (2) the concern about the lack of a dual career path for the engineer who wishes to remain so, and therefore, lack of opportunity for many; and (3) the lack of participation in the business-planning aspects of the company as a result of receiving little or no business information.

Since Sky Technologies is such a technologically oriented company, it is not surprising that there is so much emphasis on the technical factors

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involved in running the business. Many of the managers are engineers or scientists by training and derive a large part of their overall job satisfaction from the actual work itself. However, in comparison to the managers at the other companies studied, this overriding focus on the technology and relative lack of focus on the business is somewhat surprising, given the level of management with which we spoke. Further, the loyalty of the managers seems to be to the other people with whom they work at Sky Tech, the stimulating environment afforded by the nature of the work and the state-of-the-art position of the company. There did not appear to be a strong feeling of affiliation with ATC, but rather only with the environment that it provided. Therefore, from an outside perspective, it appears that the individuals at Sky Tech will go wherever the best technological environments are, whether within ATC or at another firm.

A second overall theme that appeared from the Sky Technologies data was the concern with the fact that there was not much perceived opportunity within the company for one who wanted to advance further along than the present position. There was much discussion of "stars" and the perception that those individuals were the only ones who received career guidance and specific "grooming" assignments. In fact, higher performing managers do receive more support from the ATC system, and view ATC as full of opportunity for themselves.

Sky Tech management seems to be aware that by attempting to turn an engineer into a manager, it loses many good engineers. However, engineers do not see a dual career path system open to them, and feel frustrated by its absence.

Finally, there is a definite perception that there is very little information about the business available to the level of managers we interviewed. They do not feel as if they understand its goals, plans and directions for the future. Many complained about having to work overtime for today's goals and deadlines, but not being told about what was in store for tomorrow. Since top management wishes to shift Sky Technologies' emphasis from just technology to a technical resource for the company's use, it is important that business information be provided to lower levels of management.

Hence, in order to be able to cope with changes in the future, a firm must be able to adapt to and learn from the environment in which it exists. The capability of Sky Technologies to do this is evident. However, the perspective that pervades Sky Tech (its high technical orientation) may slow down the group's progress in shifting from one strategy (technology for technology's sake) to another (technology to build the company). Increasing the amount of information that is provided to the lower levels of managers, as well as educating them in the use of this information can facilitate the implementation of the shift in strategy.

NAVY

I. Environmental and Structural Features

A. <u>Introduction to the Organization</u>

The Department of the Navy (DON) is part of a large network of government organizations whose generic purpose is to protect the United States against foreign attack, to fight and win contained and global wars, and to generally "uphold and advance the national policies of the United States." Only the four branches of the Armed Forces--the Army, Navy, Marines, and Air Force--are allowed by law to sustain "combat readiness" and to fight during times of war. The organizational body that makes decisions for and contains each of the military organizations is the Department of Defense (DOD). Its primary advisory and strategic planning elements are the Joint Chiefs of Staff, who represent each of the specific departments of the Armed Forces and confer on the collective military needs of the country. In this sense, the separate services within DOD are cooperative. Furthermore, these distinct "businesses" are sheltered from competition by law; as a result, they can be viewed as oligopolies in a national defense endeavor.

Although these military organizations coalesce in times of military necessity and in defense of general increases in military spending, they are competitive in an "intramural scramble for resources" which include federal funds for personnel, material, and support services. If the Navy were a private sector firm, it could be described as an oligopolistic firm whose aim is to promote market growth (i.e., overall defense spending) while increasing its own market share. Each of these forces is commanded by a Commander in Chief (CINC) who, in turn, reports directly to the Chief of Naval Operations (CNO), and is responsible for coordinating and conducting assigned operations in a designated area. There are a number of support units (e.g., personnel, medical, eduactional) which respond to specific needs within each of the three strategic groups. These units are not confined or unique to any of the strategic groups and may assign staff to sea or shore duty.

The Organizational Effectiveness (OE) Program, the focal group of this study, is a service group within one of those support units--military personnel. This group is similar to in-house organizational development (OD) units within private sector businesses. Just as OD units are intended to enhance a business' ability to achieve its objectives through better management and development of human resources, the OE program is designed to improve unit readiness and operational capabilities by improving the quality of work and family life, upgrading leadership standards, improving channels of communication, and generating more effective methods of cost control and resource management.

The OE Program uses Naval personnel trained in organizational development processes as outside assistants to help Commanding Officers identify problems, design the appropriate corrective action steps, do long-range planning, handle personnel transitions, build teamwork, and motivate personnel. The program is a relatively small and recent operation. As of 1983, it was staffed by approximately 155 officers and 310 enlisted men and women; the budget was almost $2.5 million.

The OE Program, formally called HRM, was introduced in the Navy in 1971 as one of five interrelated but separate programs under the Human Resource Development project. The project, and the subsequently established Human Resources Management Support System (HRMSS) was a response to the changing social and work values of the potential labor market. The programs addressed drug and alcohol abuse, equal opportunity, intercultural relations and equal opportunity, leadership and management, and organizational development. Programs have been added which are proactive and address the needs of the military family, not only the sailor. Most resources are still allocated to "reactive programs," such as substance abuse and equal opportunity. However, the vision of a number of program managers in HRMSS is to expand the visibility, authority, and/or geographic scope of the newer, more proactive programs.

In line with this trend, OE policy makers are attempting to refocus and upgrade the expertise in its OE Program to permit more systematic assistance to commanding officers and to the entire chain of command through more organizational consulting and support. The program in the past has performed its task through an organizational development technique labeled "guided survey feedback." Standardization questionnaire surveys -- Human Resource Availability (HRAV) -- were administered to assess command climate, identify problems (usually in other HRMSS areas, such as race relations), and plan corrective action as necessary. A command was required to undertake an HRAV every 18 months. During the past few years, Commanders began requesting a wider range of more tailored assistance to address their unique concerns, including complex management and leadership problems. Consequently, the HRAV has become voluntary in most locations. OE specialists started providing more open-ended consulting to major operational and shore support commands as well as the chain of command above the unit level in such areas as:

- goal setting and goal clarification
- system/program assessment
- leadership and management development
- long-range and strategic planning
- change of command transition management

Since 1980 the OE program has served annually an average of 390 commands and influenced 130,000 people in these commands. Given the Navy's growing needs for qualified talent and its continued competition with the civilian sector for a decreasing pool of young men and women, the quality of work and family life in the Navy is likely to have a significant effect on the Navy's ability to meet its human requirements.

B. Current Industry Considerations

The defense industry is influenced primarily by the prevailing economic and political condition in the U.S. However, international activities also have serious implications for the development and growth of the military.

First, the Department of Defense receives funds for the development and deployment of materials, and the training and equipping of personnel through federal appropriations from Congress. Those funds are raised by taxing the public. An increase in the defense budget requires either higher taxes or a higher proportion of defense spending relative to other expenditures. As the major actors in the appropriations process -- The President of the U.S. and the members of the U.S. Congress -- are elected officials, the electoral process and, thus, the attitudes of those citizens that participate in it play a critical role in the size and shape of the defense industry.

Second, compared to the private sector, defense requirements are not based on economic and business cycles. However, they both are influenced by and influence these cycles. Recessionary economies generate higher military enlistment because of decreased employment opportunities elsewhere. Wartime conditions, on the other hand, serve to stimulate the economy and simultaneously elevate the importance of military priorities.

Finally, international events are of great consequences to the strategies and needs of American defense businesses. The political and economic stability of our allied nations, strategically located non-aligned countries, and the other superpowers are vital to the defense posture of the U.S.

The location of equipment and manpower is as important to achieving "combat readiness" as their existence within the Navy's "arsenal" of resources. By nature of its mission, the Navy has bases where its forces can be quickly mobilized to protect the U.S. shores and strategic foreign locations. The geographic dispersion of the Navy, in turn, requires the geographic dispersion of OE centers throughout the world.

Naval stations in the Continental United States are concentrated on the East and West Coasts, where there are harbors to house their ships and easy access to the oceans. The Navy's force is divided into two major fleets: Atlantic and Pacific. Each fleet is composed of task forces and commands, such as air, surface, submarine, and reserves. In addition to these two active fleets, the Navy has "paper fleets." These fleets may have active commanders and, in theory, can be assembled on short notice by recombining ships at sea with docked ships. One major command that is classified as a major command is U.S. Naval Forces in Europe. For further support, the Navy can call upon an extensive reserve system. At all times, individuals on active reserves are assigned to particular squadrons and fleets so there are no assignment confusions during times of crises. One of the ongoing challenges facing the Navy involves the optimal deployment of its equipment and manpower. Navy Headquarters must have at their disposal contingencies plans (or heuristics for generating contingency plans) so that within a matter of hours Navy Headquarters can send out orders for the recombination of vessels and squadrons to create the most effective fighting force.

The vast portion of external communications is directed towards recruitment advertising. When the all-volunteer force was legislated in 1973, the services were compelled to step up their efforts to sell themselves as employers who could offer career alternatives that were competitive with those available to civilians. Since then, two events have significantly altered the services' advertising strategies. The most dramatic event occurred in 1976 when Congress authorized the services to buy broadcast. The ability to buy television time opened up a powerful channel for reaching a national audience. The second event was the introduction of joint advertising in 1979, which allows all four military services to market themselves collectively and provides some economies of scale to the DOD. Individual service advertising is aimed at creating awareness and differentiating the advertiser from the other services.

The Navy image strategy has remained fairly constant over the years. Its slogan is "Navy. It's not just a job, it's an adventure." The intent of this advertising is to communicate exciting jobs and exciting places available to naval personnel. National media campaigns are targeted primarily at high school seniors or graduates who test in the upper half of their age group. The rest of the funds goes into local advertising, response analysis, and brochure and pamphlet creation.

Recruiting stations are effective contact points for individuals seriously considering enlisting. There are also a number of small organizations throughout the United States that promote naval aims (such as local veteran groups, and interest/lobbying groups that try to influence policy). Finally, public displays of naval military exercises (such as air shows and troop movements) are used to generate interest and inspire respect among the public.

C. Formal Structure

The Organizational Effectiveness (OE) Program is one of many programs under the Human Resources Management Support System (HRMSS). The OE Program is not organizationally contained within one command. Rather, the units that plan and evaluate, the units that train OE specialists, and the units that provide OE assistance fall under the jurisdiction of several commands.

The planning and monitoring functions are centrally managed at headquarters in Washington, DC by a small group within the CNO staff. The Deputy Chief of Naval Operations (DCNO) for Manpower, Personnel and Training serves as the focal point for the operation and management of the OE and is the sponsor for the OE Program in the Program Objective Memorandum (POM) process. The DCNO's staff under the Human Resource Management Division is responsible for developing policies and plans for all programs directed at improving the quality of life in the Navy as well as Organizational Effectiveness. It makes recommendations regarding the program's structure, the content and scope of its OD interventions, and its manpower qualifications and training. The DCNO's staff under the Human Resource Management Division (HRMD) monitors and tracks budget, personnel and training resources for the OE Program. While the monitoring and planning functions are officially done separately, many of the employees serve both staff functions.

Actual management assistance to commanding officers is provided by OE specialists who are assigned to one of thirteen regional Organizational Effectiveness Center (OEC's) of equal status. However, their policy directives emanate with the CNO, are transmitted to the Commanders-in-Chief (CINCs) and then communicated to OE systems commanders. Although the OE Systems Commanders have the autonomy to design and initiate OE activities, they report to and are monitored by the Assistant Chief of Staff for the appropriate CINC.

Formal systems in the OE program reflect those of the Navy. Information travels along the chain of command and specified lateral routes. Information presentation is highly formalized and often is put in writing and codified. Information flows specific to the OE Program involve internal marketing of the program and request procedures.

A primary function of the staff members in the Human Resource Management Division (HRMD) is to maintain and support the Navy-wide system of OECs. They are responsible for direct communication with appropriate naval personnel on matters related to the successful implementation of the OE Program. Sustained communication about this Program's aims and accomplishments is essential to its continued acceptance and use by Naval personnel. With the assistance of the Chief of Information, the HRM Division has designed an information program targeted at two audiences -- (1) the commanding officers who would request OE assistance and (2) all Naval personnel. Information is disseminated through several channels. These channels include: (a) personal letters and messages from the CNO and CINCs to commanding officers, (b) articles and photo features in Navy publications, and (c) video tapes of officers describing how their unit benefited from the OE Program.

The key operating processes in many organizations revolve around the acquisition and communication of information. This information is then used as the basis for decision-making. One of the facets of OE that respondents noted as being most distinctive was the openness of communication within the organization. There was a pervasive belief that information was always disseminated if there was any purpose to sharing it, and that everyone within OE was kept in touch with the organization's direction.

This was contrasted with the Navy's tendency to promulgate orders without explanations. OE staff firmly believe that this severely limited communication reduces the level of individual motivation and productivity. Most respondents expressed strong opinions on this issue, and indicated that the understanding of why things are being done is a central part of the OE organization's credo.

D. Human Resource Practices

It has always been the policy of the Navy to invest in its own people. This places a premium on the recruitment and training of personnel. It also produces a complex system of matching human needs with organizational goals. The Navy's long-standing philosophy has been that it is capable of successfully controlling and directing this development process.

The umbrella objectives of the Navy's human resources management system is "the integration of qualified personnel and material assets to achieve the successful and efficient execution of the Navy's assigned mission." In response to changing legislative, economic, social, and technological influences, the Navy is currently stepping up its HRM efforts in areas such as retention, material and manpower readiness, and equal opportunity.

The Navy has twenty human resource management programs directed toward improving the quality of worklife. The main goals of these programs as stated by the Navy are:

(1) To attain maximum unit effectiveness through improvements in the management of human resources.

(2) To develop an environment which promotes optimum individual performance in support of mission accomplishment.

(3) To ensure that the Navy and each individual naval unit is operated and managed in a manner which supports full consideration of personal worth and dignity and provides for equal opportunity for upward and lateral mobility and the development of the individual regardless of race, color, sex, religion or national origin.

(4) To develop an environment which will attract and retain personnel with ability, dedication, and the capacity for growth, in sufficient numbers to support present and future Navy personnel requirements.

As a result of the enactment of legislation which requires all-volunteer armed services and the increasing complexity and specificity of the Navy's functions, the Navy has changed its recruiting practices dramatically. Local Naval recruiters are attempting to make enlistment as attractive to high school graduates as any other employment alternative. Reserve Officers Training Corps (ROTC) has made a conserted effort to attract the college and university ranks in search of officer candidates.

To prospective enlisted men and women the Navy advertises itself as an employer of motivated, high quality personnel who can choose from a vast menu of career opportunities, travel extensively, train on the job, receive ongoing promotions according to merit and achievement, and qualify for educational and other benefits that one can carry into non-military careers. Navy recruiting techniques at the enlisted persons' level stress the prestige, honor, adventure, and meritorious advancement associated with a Navy career. Finally, the Navy encourages enlisted persons to capitalize on the Navy's technical, educational, and financial resources in preparation for better careers in the non-military community. These are individuals for whom time commitments are not relatively great, job alternatives are not abundant, and turnover rates are high.

The Navy promotes itself as a conglomeration of industries and businesses which afford aggressive individuals rewarding careers in executive, managerial, professional, scientific, and technical occupations. Training and development, whether physical conditioning or advanced technical education, begin with recruit training and continue throughout one's entire naval career. The Navy continuously monitors and interacts with the development of its personnel. Due to the vast range of specialized functions that must be performed to uphold its military mandate, the Navy offers an equally large variety of training programs and educational opportunities designed to attract and develop suitable personnel. Furthermore, selective and advanced programs require extended time commitments and thereby help retain high quality personnel. For enlisted personnel, commanding officers (COs) and the Commander of the Naval Personnel Command track performance and offer guidance. At the officer level, detailers -- officers who are assigned as career counselors to each junior officer -- assess personnel qualifications, goals, and potential, give critical advice on career paths, and lobby for rotation, advancement, or transfer placement for their candidates.

Training and development opportunities are generally divided into four categories. They are (1) Service Schools, (2) Selective Programs, (3) Educational Opportunities, and (4) Commissioning Opportunities. All are available to enlisted personnel and to officer candidates. Service schools are vocational/technical schools which prepare their students for specialized job assignments, and provide primary education on basic naval subjects. They also provide candidates with an opportunity to acquire an undergraduate academic degree.

Appraisals made about the advancement of enlisted personnel are made through a centralized system based on competitive examinations. There are specific qualifications which must be met by each person who wishes to be eligible to compete in either semi-annual or annual Navy-wide advancement examinations. The Navy Enlisted Performance Evaluation Report is a periodic recording of each individual's qualifications, special accomplishments or problems, comparative performance level, conduct, and professional potential. It rates personnel on a traditional 4.0 scale and segregates evaluation traits into five distinct areas: professional factors, personal traits, self-expression, leadership, and management.

The Enlisted Performance Evaluation Report is the most important, but not the only method of appraisal and feedback. Commanding Officers (COs) must regularly appraise and counsel service members about their professional growth and development and career opportunities. COs are strongly encouraged to engage in career dialogue with subordinates and consistently submit special performance reports which highlight one's record of (1) unusual duties and special assignments, (2) deployment of command, (3) special achievements such as service schools, arduous or combat duty, acts of heroism, or awards, and (4) personal conduct and behavior such as drug or alcohol abuse, or insubordination. These additional remarks help provide a more meaningful summary for decision-making officers.

For officers, fitness reports are the principal documents used in appraisal and career management of officers in the Navy. They are "the primary tool used for comparing officers and arriving at career decisions with respect to relative merit" in eight categories. These are promotion, assignment, retention, selection for command, selection for sub-specialty, and term of services professional development training (e.g., Surface, Warfare School, Staff College, War College, and other specified courses), and other career actions. Those who make promotion decisions use information from Commanding Officers by comparing fitness reports across many potential candidates.

The total compensation package collected by Naval personnel consists of a combination of pecuniary and non-pecuniary benefits. The largest portion of any persons Navy renumeration comes from Basic pay. Basic pay depends solely upon pay-grade and years of service. Basic Allowances cover certain costs of living associated with Navy life such as Quarters (housing) and Subsistence (rations). Each is determined according to need based on certain minimum/maximum criteria. Special Pay includes sea and foreign duty pay, reenlistment bonuses, proficiency incentives, and numerous types of hazardous duty pay. Incentive payments for hazardous duty are made most frequently for aviation and submarine duty, although equally generous payments are made for flight deck, parachute, demolition, scuba, nuclear, and experimental stress duty. Miscellaneous Allowances include clothing, and travel and transportation allowances paid to those authorized to make expenditures related to Naval orders.

Other benefits of a non-monetary nature include legal assistance, family housing, insurance, family health plans, and personal counseling. There are also a number of off-duty social and recreational programs which aim to supplement and improve the private lives of Naval personnel and their families.

Finally, the Navy pension and retirement program offers a perpetuity of as much as two-thirds of one's last annual salary while on active duty. Specific pension receipts are determined by one's length of tenure. However, one must be on active duty for at least twenty years before qualifying for any pension benefits. This plan presents a great incentive for Naval personnel to reenlist at least through the first designated pension cut-off at twenty years.

II. Perceptions of Key Planning and Human Resource Practices

In the previous sections we discussed the strategic and human resource issues and practices as they are officially stated and documented. However, one of the components of strategic management is the consistency between strategic direction, organizational policies, and the perceptions of those policies. In the following sections, we describe the perceptions of Navy personnel of organizational structures and processes tied to organizational effectiveness and the retention of personnel. Specifically, we focus on their perceptions of planning and goal setting, motivation and incentives, and job mobility within and out of the Navy. Serious gaps and inconsistencies between formal elements and perceptions of those elements are noted when they occur.

A. Perceptions of Planning and Goal Setting

The formal planning system very much follows the outline of the organizational structure described above. In keeping with the chain of command in the Navy, respondents reported that the planning system operated in a purely top down fashion, with overall goals being developed at a level above the CO's, and then disseminated. For less global goals, different sites displayed different methods of devising goals and communicating them. In general, though, there was a feeling that OE's internal goal setting process was much more open and participative than that usually found in the Navy. One site convened all of its unit directors, who worked with the CO to develop an initial set of goals, and then returned to discuss them with subordinates before finalizing them. The personnel in our sample greatly appreciated this opportunity, and it furthered their sense that OE was finding new ways for the Navy to operate.

The salience of the goal-setting process varied with rank. Those at a level high enough to be included (unit directors in one site, instructors in another), felt that these were important exercises. Those below this level did not believe that these efforts played a major role in what they would be doing. This sense was intensified by the nature of the work itself--consulting, which is highly reactive to client calls, or teaching, which is an ongoing process. Planning and goal-setting were not, in short, seen as central activities by most respondents. There was, rather, a feeling of continuity that one was there to fulfill an ongoing need; while this need would change in emphasis at times (the shift from HRM to OE, for instance), the basics tended to remain stable. The major planning decisions are not viewed as localized, but many applaud the fact that OE provides latitude in implementing decisions.

One of the more striking, if not unexpected, differences between the OE sites and the private sector organizations in the study was the divergence around resource allocation systems. This proved to be a key area of contention in most of those organizations; it was rarely a matter for concern by OE respondents, particularly below the Commander level. Almost all of these respondents evinced little interest in the issue and expressed the feeling that resources were mostly outside of their control. This is apparently a function of the allocation process, which is seen as relatively fixed and done at higher levels. Currently, decisions are made on the basis of the last two years' budgets, and increased in a fixed incremental fashion. Very few of the respondents reported feeling at all constrained by resources--with one significant exception.

There is a widespread belief that OE is hamstrung by a lack of quality personnel. Many respondents noted that, for the most part, OE seems to be at the bottom of the personnel assignment list. In the words of one officer: "You never see flag level material coming into the OEC." It is clearly viewed as, at best, a billet that does not harm your career; it certainly does not help it. There is an emerging perception that this is not necessarily true for women, and that they can use it as a valuable "ticket to punch."

B. Perceptions of Motivation and Incentives

It is important to note that, with the exception of reward structure, the determinants of motivation described by most respondents pertained to a constellation of organizational characteristics rather than explicit incentive systems. This is consistent with our findings from other sites. The typical direct organizational activities usually thought of when motivation is discussed are no more important--and, our data suggest that they may be less important--than indirect aspects of how the organization does business. If our sample organizations are indicative, people are clearly linked to organizations in a manner much more complex than a simple monetary exchange.

OE staff believe that their organization combines the most attractive elements of the Navy with a somewhat different view of the world. There are most of the Navy attractions: the opportunity to see a variety of places and to try a variety of jobs; the opportunity to confront challenge and responsibility in one's job; the chance to serve one's country; the quality of people with whom you work; the comraderie and bonds that develop; and the financial security the Navy affords.

Working in OE adds several things to the list. First and foremost is a more humanistic view of people. Related to this is the opportunity to experience personal growth while serving to improve the Navy. Several OE consultants spoke of the personal effects that exposure to OE concepts had on them; they were strongly motivated by the possibility of communicating this to others. OE members are fervid in their assertion that OE provides a valuable service to the Navy. Most claim to find immense personal satisfaction from completing assignments that help the Navy function more effectively.

OE is seen as treating its people very well, in several senses. Most respondents find a degree of freedom, autonomy, and creativity that they had not before seen in the Navy. There is a tremendous challenge to the job, both intellectually and organizationally, particularly in regard to overcoming the resistance often encountered in trying to work in non-OE units. The majority of respondents believed that being part of OE had enabled them to better themselves, both as members of the Navy and as individuals.

Few of the drawbacks mentioned concerned OE; primary topics were the costs of Navy life and the OE-Navy relationship. Many respondents commented on the effects that extended sea tours have on families. Some think that the Navy has never really examined the feasibility of alternative arrangements. Pay was seen as relatively poor, and likely to remain that way. Several bitterly told of the changes in GI Bill benefits, calling it a "breach of faith."

Most of the conversations, however, centered on the conflicts between what OE is supposed to be doing and the resistance they meet whenever they try to do it. The linkage is perceived as being very poor, and several explanations were offered. First, some assert that OE was formed merely "to pay lip service" to the notion that the Navy is concerned about human resource and organizational development issues. Others feel that the high command may be sincere, but that OE is trying to do something that is counter to much of the Navy's traditional management methods and it is operating without adequate resources. The lack of resources--most notably high potential individuals--is seen as a true sign of the significance accorded OE. As one high-ranking respondent noted, OE disappears on mobilization day, and that is a significant indicator of the role of the function in the Navy. Our respondents believed that obtaining hardware is much more salient to most Navy officials than improving human resource capabilities.

Compounding this fundamental difference in orientation, according to many OE consultants, was the negative reputation the organization inherited from its previous designation as HRM. This reputation was a result of its roots in

EEO as well as the formerly mandatory HRAV program. Many commanding officers felt that HRM staff used this program to bypass the chain of command and exacerbate problems. Although the use of OE is now totally voluntary and interactive, the resentment lingers in many quarters. This creates additional barriers that OE personnel must contend with in their activities.

C. Perceived Keys to Success and Movement

Overall, there was a relatively high degree of consensus concerning the determinants of success in both OE and the Navy, and once more, they diverged. To succeed in OE, one needs to be creative, flexible, committed to OE's people-oriented ideals, and have an attitude described by one respondent as "enthusiastic professionalism." Success in the Navy is a function of performance in your specialty area, getting the "right tickets punched" (OE was not one of these), and a host of personal qualities. Loyalty is important, as is dedication, the ability to lead, and clear personal goals. Some OE staff asserted that, while you must be a team player to succeed in OE, success in the rest of the Navy depends more on the individual alone.

Assignment to an OE unit occurs within the larger transfer and promotion system of the Navy. Depending on the individual's valuation of the OE program, comments about the current and optimal rotation for an OE specialist differed. About 50 percent of the individuals interviewed perceived OE as an important support function involving highly technical and honed skills. These people were more apt to advocate longer tours of duty for an OE specialist (typically four to five years) as well as a career path within the OE specialty. The other 50 percent considered OE a less important and clearly peripheral Navy activity. These OE specialists stressed the importance of returning to sea after two to three years. Many of these individuals also chose the OE billet for geographic rather than professional reasons.

There was a general consensus that a tour of duty as an OE consultant was detrimental to a male officer's military career. The Navy's emphasis and reward structure is centered around war specialties (which mean combat support activities such as squadron trainer). Female officers, who are closed out of sea duty, and enlisted personnel were commonly believed to benefit from the greater exposure to and higher visibility at upper echelon levels.

Many of those interviewed, however, were clear that their career within the Navy was already capped. Whether this ceiling was caused by their choice of the OE specialty or whether they decided to choose the OE specialty because they already knew their Navy careers were limited is impossible to discern.

Individuals were clearly as aware of OE's high market value within the civilian labor force as they were of its low value within the Navy community. The OE specialty provides an excellent transition into the civilian world. First, unlike combat skills, the OE specialty has more apparent and universal application in the civilian sector. Second, because there is an entire community of civilian organizational development and management consultants, OE specialists have more opportunities to meet future job contacts by attending professional conferences and seminars.

This is not to say that the OE consultants were not dedicated to the mission and goals of the Navy. Their "heart" or "grounding" was still solidly the Navy. They spoke of the necessity of OE consultants to have been and to go back to sea so that they never lose touch with the demands of the "real world," viz., the ship. On the other hand, they seemed moderately willing to consider leaving the Navy, and officers with less than twelve years service often had contingency plans of alternative employment based on changing benefit packages.

Most officers felt that the OE training was out-moded and that the school curriculum when they went to Memphis was in need of drastic revision. However, no one had gone through the newest OE training program, and therefore could not critically evaluate to what extent the necessary improvements have been made.

There was a strong sense of self-selection into OE and the need to come with the "raw material" already. The attitude was "OE consultants are born not made." In addition, many believed the most valuable learning occurred on the job because OE is a hands-on profession. Consequently, direction and feedback from bosses and colleagues were considered critical to the developmental process, which could then be supplemented by advanced seminars.

In terms of how a leave or stay decision was viewed, the Navy sample displayed a bi-model distribution in terms of whether the respondent's current plans were to either remain in the Navy or leave the Navy in the near future. This was paralleled by a split in terms of primary career goals, where one group was most interested in moving up through the ranks of the Navy, and the other wanted to pursue a career in a special area of expertise and interest, either inside or outside the Navy. In addition, Navy people perceived that there was significantly less opportunity for advancement in the Navy than other groups perceived for their companies.

Because of these three factors, the signals leading to a leave or stay decision had a somewhat different impact (compared to the responses of other sites) on the specific measures of intent to leave or stay, the probability of searching for another job, and the probability of leaving within the next year. Those who already planned to leave answered accordingly, regardless of the signal; likewise for those who planned to remain in the Navy. In support of this, it was found that the mean value of intent to stay for Navy individuals was neutral in the case of the private, negative, job-security-related signal; while for all other sites, the mean value was high intent to leave. As another example, a large majority of managers at the other sites estimated that the probabilities of both search and leaving would be quite low when presented with a private, positive signal. The Navy group reported a high probability of search and a high likelihood of leaving the Navy within the next year. These responses corresponded to those individuals who had already decided to leave soon.

There were some other noticeable differences that did not seem to be attributable to the bi-model distribution. The first was that, in general, the Navy individuals were much less concerned with how the signals would affect their position, reputation and visibility to the external market than internally to the Navy and OE Program. Regardless of the type of signal, external marketability was always rated as neutral, while internal impact was rated differentially according to the signal characteristics (see general results above). Further, the Navy sample was more positive overall in terms of the perceived effect of the signal on internal reputation than other sites for the rank-advancement-related signals.

III. Summary

The information we obtained from different sources was relatively consistent with respect to the central issues of motivation and incentives, mobility and integration, and decisions to stay with or leave the organization. All three studies pointed to the encompassing nature of Navy life.

The Navy is akin to a self-sufficient system with clearly delineated boundaries. This is evidenced by the strength of the Navy culture. Those interviewed were dedicated to the defense of this nation at sea and were willing to sacrifice their lives accordingly. Continual geographic movement and sea duty reinforce this cohesive culture since associations are basically confined to other Navy men when an individual is at sea and continual movement reduces the ability to attach to anything but the Navy organization and the family unit, which relocates with the individual. A major motivation for the OE specialists was their potential to empower the Navy to utilize people more effectively.

The strength of this focus on the Navy is also demonstrated in individuals' responses to organizational signals. Signals were never seen as affecting external reputation and visibility--the civilian world seemed irrelevant. Moreover, those who intended to stay in the Navy could not be swayed by negative signals. On the flip side, those who intended to leave could not be persuaded to stay. This may because many of them did not have the option to remain in the Navy.

The formal system is impersonal and hierarchical. The Navy is bounded by regulations and restrictions imposed by the outside -- i.e., Congress -- as well as its own rules and protocol. Information is oftentimes written, codified, and disseminated through the chain of command on a "need to know" basis. Plans are formulated and orders are dictated top down. There is almost a one-to-one correspondence between rank and authority; it is the position rather than the particular occupant than holds the power.

The culture reinforces this system. Navy personnel exhibit high patriotism and, more specifically, are dedicated to the sea defense of the United States. The ship is considered "the real world," and warfare billets within the operating forces are career enhancing and are sought after. At sea and on shore, discipline and respect for the chain of command are central values.

The system and the culture are well suited to the ultimate responsibility of the Navy: combat effectiveness at sea. A Navy life always entails the possibility of the supreme sacrifice: one's life. To justify these sacrifices as well as the lower immediate benefits package (compared to civilian world), military personnel need to be totally committed to the aims of the organization and believe that those aims cannot be realized (or, at least, realized as well) elsewhere. In addition, combat effectiveness requires the quick decisions and automatic following of orders simultaneously by many individuals.

The OE program is embedded in the Navy's military establishment. Most of the OE program's personnel are military and therefore follow military codes and procedures and share military values, particularly patriotism and respect for their superiors. In addition, the OE program's mission is directly associated with Navy military life -- e.g., OE specialists work closely with enlisted men and officers in the operating forces and shore establishments.

Yet it is the strong uniformity of Navy values and viewpoints that puts the OE program in a precarious position. OE's operating principles are different from those of the Navy, particularly regarding the dissemination of information and the role of the individual. In contrast to OE, the Navy emphasizes hardware over human resources; information is formal and on a "need to know" basis rather than open, informal, and free-flowing; the key to success is being at sea or having a shore assignment that directly supports combat readiness rather than activities where support for combat activities is less direct. Given the pervasive formal system, there is less room in the Navy for flexibility, creativity, and participatory decision-making, all essential attributes for the effective OE consultant.

In addition, the military system places the greatest value on sea duty and sea command; shore billets -- particularly those not directly involved in shore support for operating forces -- are considered far less prestigious and not career enhancing. Consequently, the OE program is not only hampered by lower credibility and status, but the perception that lower quality officers are attracted to the program.

Because the Navy is such an all-encompassing environment, tolerance for disalignment or subcultures is indeed limited. Thus, it is not surprising that, after Weinberger's announcement that the defense budget would be cut by 15%, the Navy requested that the OE program justify itself or be discontinued. The comment that the OE program would disappear on mobilization day was telling. The survival and successful institutionalization of the OE program will clearly depend on high command support for many years to come. If this is not forthcoming, the OE program has little hope for long-term survival.

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